

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE DEPARTMENT OF HOUSING  
AND COMMUNITY DEVELOPMENT'S  
MANAGEMENT OF THE HOME  
INVESTMENT PARTNERSHIPS PROGRAM**



**CHARLES C. MADDOX, ESQ.  
INSPECTOR GENERAL**

## **Acronyms**

CFR	Code of Federal Regulations
DCHFA	District of Columbia Housing Finance Agency
DHCD	Department of Housing and Community Development
EAHP	Employer Assisted Housing Program
FY	Fiscal Year
HDS	Housing and Development Software
HPAP	Home Purchase Assistance Program
HOME	HOME Investment Partnerships Program
HUD	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
MPHAP	Metropolitan Police Housing Assistance Program
OIG	Office of the Inspector General, District of Columbia

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



September 30, 2002

Stanley Jackson  
Director  
Department of Housing and Community Development  
801 North Capitol St., N.E., Suite 835  
Washington, D.C. 20002

Dear Mr. Jackson:

Enclosed is the final audit report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Department of Housing and Community Development's Management of HOME Investment Partnerships Program (OIG No. 02-1-9DB(a)). The audit was requested by the Director, Department of Housing and Community Development (DHCD).

DHCD's responses to a draft of this report are generally responsive to the intent of the recommendations. However, DHCD should reconsider its position on Recommendation 2 and provide details of the planned initiatives to seek public, quasi-public, and private sector funds from various sources to provide an additional source of financial assistance to low-income to moderate-income first-time homebuyers and to maximize the potential of those funds by the use of a revolving fund to make new loans. Generally, audit recommendations should be resolved within 6 months of the date of the final audit report. DHCD should readdress Recommendation 2 and provide additional information on planned initiatives by October 31, 2002, to help ensure timely resolution. The full text of the DHCD response is included in Exhibit F.

The District of Columbia Housing Finance Agency (DCHFA) was discussed extensively in this audit report. Although recommendations were not directed to DCHFA, we provided a courtesy copy of a draft of this audit report to the Executive Director, DCHFA, who provided two sets of responses. The full text of the DCHFA responses is included in Exhibits G and H.

Mr. Stanley Jackson  
Department of Housing and Community Development  
September 30, 2002  
Page 2 of 3

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles C. Maddox", written over a horizontal line.

Charles C. Maddox, Esq.  
Inspector General

CCM/ws

Enclosures

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**AUDIT OF THE DEPARTMENT OF HOUSING AND  
COMMUNITY DEVELOPMENT'S MANAGEMENT OF  
THE HOME INVESTMENT PARTNERSHIPS PROGRAM**

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## EXECUTIVE DIGEST

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### OVERVIEW

The Office of the Inspector General, District of Columbia, has completed an audit of the District of Columbia Department of Housing and Community Development's (DHCD) management of the HOME Investment Partnerships Act (the (HOME) Investment Partnerships Program). This is the first audit report in a series of audits that will evaluate DHCD management of resources and monitoring of project performance. This segment of the overall audit evaluated the transfer of \$6.2 million of HOME funds and District of Columbia HOME repayment funds provided during fiscal years 1998 through 2001 to the District of Columbia Housing Finance Agency (DCHFA). The funds were incorporated into the DCHFA Single Family Mortgage Bond Program to reduce interest rates on DCHFA mortgage loans (mortgage loans made to low income to moderate income first-time homebuyers).

The overall audit was requested by the Director, Department of Housing and Community Development. Our specific objectives in this segment of the overall audit were to determine whether: (1) HOME funds provided to DCHFA were properly accounted for and used in an efficient and effective manner; (2) activities undertaken by DCHFA complied with DHCD Grant Agreements' terms and conditions; (3) DHCD procedures complied with applicable federal laws and regulations for administering HOME funds; and (4) DHCD properly accounted for and provided adequate oversight regarding the HOME funds provided to DCHFA. Subsequent to this segment of the overall audit, we will evaluate the recycling of HOME funds by DCHFA and the management of DHCD HOME funds by other major subrecipients.

### CONCLUSIONS

This report contains three findings that include the details supporting the conditions we observed and documented.

DHCD did not invest HOME funds in a manner that maximized the use of private sector financing to help finance mortgage loans for District of Columbia residents. Specifically, DHCD did not obtain the maximum use of private sector financing because the ratio (leverage) of private financing to government funds achieved by DCHFA was significantly lower than the leverage obtained by the other major organization used by DHCD to provide assistance to finance mortgage loans (see Table 4 for details). As a result of the transfer of HOME funds and District of Columbia HOME repayment funds to DCHFA, DHCD lost the opportunity to obtain as much as \$32.2 million in private sector financing to invest in mortgage loans for District of Columbia residents.

DHCD did not submit eligible costs to the U.S. Department of Housing and Urban Development (HUD) for drawdown for the HOME portion of 28 of 108 mortgage loans

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## EXECUTIVE DIGEST

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(26 percent) completed by DCHFA. As a result, DHCD failed to obtain \$1,315,178 in reimbursable HOME costs from HUD for the 28 completed mortgage loans and failed to reimburse District of Columbia general fund accounts in a timely manner.

DHCD requested and received from HUD, in December 1998, a drawdown of \$1 million of HOME funds without providing satisfactory information necessary to validate the drawdown. As a result, DHCD obtained a drawdown of HOME funds from HUD that exceeded (by \$27,673) the \$972,327 to which it was entitled and did not pay interest earned on unexpended drawdown amounts due HUD. Further, due to the lack of adequate documentation, it cannot be clearly determined whether the drawdown requested and received by DHCD was authorized in accordance with federal regulations, related directly to Grant Agreement Number 98-33, occurred as a result of the lack of DHCD internal control procedures, occurred as a result of a violation of DHCD internal control procedures, or a combination of one or more of these factors.

### SUMMARY OF RECOMMENDATIONS

We directed 8 recommendations to the Director, Department of Housing and Community Development:

- Reassess the DHCD HOME program to develop District of Columbia policies and strategies to maximize the use and effectiveness of private financial resources. The results should be incorporated into the Consolidated Plan for the District of Columbia.
- Evaluate the use of a home purchase trust fund to operate as a revolving fund and to provide an additional source of financial assistance to low-income to moderate-income first-time homebuyers in the District of Columbia. This initiative should be pursued in coordination with policies and strategies developed in accordance with Recommendation 1.
- Establish specific written procedures and internal controls to ensure that all eligible HOME costs are submitted to HUD for reimbursement in a timely manner (but not less than monthly) and that adequate records are maintained to document the process.
- Establish written procedures and internal controls to ensure compliance with applicable federal regulations concerning the process to drawdown HUD HOME grant funds.
- Establish written procedures and internal controls to ensure compliance with applicable federal regulations concerning the management and oversight of HUD HOME grant funds used by DCHFA and other subrecipients.



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## EXECUTIVE DIGEST

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- Reimburse HUD \$27,673 for HOME grant funds that exceeded validated expenditures.
- Determine the interest earned on the \$27,673 of HOME grant funds that exceeded validated expenditures and remit that interest to HUD.
- Determine the interest earned on \$604,318 of HOME grant funds that remained unexpended 15 days after the \$1 million drawdown on December 4, 1998, and remit that interest to HUD.

### MANAGEMENT RESPONSES AND OIG COMMENTS

On September 19, 2002, DHCD provided a formal response to the recommendations in the draft audit report. Generally, DHCD officials agreed with the report, its conclusions, and seven of the eight audit recommendations. The DHCD response included actions taken, planned, and target dates for completion of planned actions to correct noted deficiencies. We consider the DHCD response and actions taken to be responsive to seven audit recommendations. However, DHCD disagreed with Recommendation 2, to evaluate the use of a home purchase trust fund to operate as a revolving fund and to provide an additional source of financial assistance to low-income to moderate-income first-time homebuyers in the District of Columbia. We requested DHCD to reconsider its position on Recommendation 2 and provide an additional response by October 31, 2002. The complete text of the DHCD response is included in Exhibit F.

The Executive Director, DCHFA, provided two sets of responses to the draft report, one on September 12, 2002, and the other on September 17, 2002. Although no recommendations were directed to DCHFA, we evaluated the Executive Director's responses and made an appropriate revision to this final report. Specifically, we deleted a paragraph from page 12 of the draft audit report that discussed DCHFA's internal financing. The remainder of the Executive Director's responses did not apply to the issues contained in this final audit report. An ongoing audit may address those concerns in a subsequent audit report. The complete text of the DCHFA responses is included in Exhibits G and H.

A summary of the potential benefits resulting from the audit is shown as Exhibit A.

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## INTRODUCTION

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### BACKGROUND

The Office of the Inspector General, District of Columbia, has completed an audit of the District of Columbia Department of Housing and Community Development's (DHCD) management of the HOME Investment Partnerships Act). This is the first audit report in a series of audits that will evaluate DHCD management of resources and monitoring of project performance. The overall audit was requested by the Director, Department of Housing and Community Development.

**Department of Housing and Community Development.** DHCD uses its funds to support programs that provide housing, neighborhood revitalization, and support services for low-income and moderate-income households (households with incomes below 80 percent of the area median income). DHCD focuses on three areas: (1) increasing homeownership opportunities; (2) preserving and increasing the supply of affordable housing through new construction and rehabilitation; and (3) revitalizing neighborhoods, promoting community development, and providing economic opportunities. DHCD receives approximately 80 percent of its funding through the U.S. Department of Housing and Urban Development (HUD). To aid in accomplishing one of its focus areas, increasing homeownership opportunities, DHCD uses HOME grant funds, which are provided annually by HUD. HUD defines homeownership as ownership in fee simple title or a 99-year leasehold interest in a one- to four-unit dwelling or in a condominium unit. 24 CFR (Code of Federal regulations) § 92.2

**HOME Investment Partnerships Program.** Under the HOME program, HUD allocates grant funds among eligible state and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing for very low-income and low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, new construction of housing, and tenant-based rental assistance. The District of Columbia is a participating jurisdiction but merges the state and local functions and must use its local funds to match the HOME funds. Participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investment, interest subsidies, and other forms of investment that HUD approves. Further, HUD requires each participating jurisdiction to make all reasonable efforts to maximize participation by the private sector to accomplish the HOME program goals.

**Grant Agreements.** Grant Agreements numbered 1998-33, 1999-20, 1999-39, and 2000-16 (Grant Agreements) were executed between the District of Columbia (represented by DHCD) and the District of Columbia Housing Finance Agency (DCHFA) during fiscal years (FY) 1998 through 2001. The Grant Agreements provided for one-time transfers, totaling \$6.2 million, of HOME funds and District of Columbia HOME repayment funds to DCHFA

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## INTRODUCTION

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for the purpose of funding bond issues. District of Columbia HOME repayment funds are local program receipts of funds resulting from previous investments of HOME funds.

The transferred funds for each of the four Grant Agreements were incorporated into the DCHFA Single Family Mortgage Bond Program to reduce interest rates on DCHFA mortgage loans (mortgage loans made to low-income to moderate-income first-time homebuyers). This was done by combining the transferred funds with portions of sales proceeds from six DCHFA Single Family Mortgage Revenue Bond issues and was used to provide mortgage loans at interest rates ranging from 3.75 to 4.30 percent.

For purposes of clarity, we note that HOME funds were not actually transferred to DCHFA but rather funds from District of Columbia general fund accounts were transferred to DCHFA. However, the transactions discussed in this audit report are referred to in terms of “HOME funds,” as this is industry practice. District of Columbia general fund accounts are subsequently reimbursed by the drawdown (the process of requesting and receiving HOME funds from HUD) of HOME funds for reimbursable HOME eligible costs.

### OBJECTIVES, SCOPE, AND METHODOLOGY

The announced objectives of the audit were to: (1) evaluate the management of specific Community Development Corporation projects; (2) assess the benefits arising from investment in Community Development Corporation projects; and (3) assess the validity of expenditures of selected projects.

In addition to the announced objectives, the Director, DHCD asked us to evaluate the overall project management within DHCD of grant funds provided to grant subrecipients and the appropriate use of those funds by grant subrecipients. We were also asked to evaluate the reconciliation and accounting for those grant funds within DHCD. Grant subrecipients are defined by HUD as a public agency or nonprofit organization selected by the participating jurisdiction to administer all or a portion of the participating jurisdiction’s HOME program. 24 CFR § 92.2

During the initial stages of our overall audit, we identified weaknesses in the administration of the DHCD HOME program. We deferred the originally announced objectives to provide a timely evaluation of the DHCD management of its HOME program. As a result, we will continue to direct questions and requests for pertinent documentation to subrecipients involved in the DHCD HOME program. Our audit work at subrecipients is being performed to determine whether subrecipients are efficiently and effectively managing and accounting for grant funds provided by DHCD. DCHFA was a major subrecipient of HOME funds provided by DHCD and the first subrecipient to be evaluated. Subsequent to this segment of

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## INTRODUCTION

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the overall audit, we will evaluate the recycling of HOME funds by DCHFA and the management of DHCD HOME funds by other major subrecipients.

Our specific objectives in this segment of the overall audit were to determine whether: (1) HOME funds provided to DCHFA were properly accounted for and used in an efficient and effective manner; (2) activities undertaken by DCHFA complied with DHCD Grant Agreement's terms and conditions; (3) DHCD procedures complied with applicable federal laws and regulations for administering HOME funds; and (4) DHCD properly accounted for and provided adequate oversight regarding the HOME funds provided to DCHFA.

To accomplish our objectives for this segment of the audit, we reviewed grant project files that included grants to subrecipients, commitment letters, project management information, monthly beneficiary data, and other related documents. We obtained mortgage loan completion and financial data for the Greater Washington Urban League. We also visited DCHFA to review grant agreement project files, bond indentures, the process for making mortgage loans, trustee cash accounts, and financial data for mortgage revenue bonds. We interviewed representatives from HUD, DCHFA, and DHCD. Although we visited and conducted interviews at DCHFA, requested data was not always provided in a complete, pertinent, or timely manner for this segment of the audit.

We relied on computer processed data from the HUD Integrated Disbursement and Information System (IDIS) to determine whether mortgage loans completed by DCHFA were properly submitted by DHCD to HUD for reimbursement, the verification of completed mortgage loans closing dates, and the total loan value for each completed home mortgage. We also extracted financial data from the District of Columbia's System of Accounting and Reporting that provided us with a detailed transaction listing of DHCD expenditures over \$100,000 for FY 1998 through FY 2001. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that expenditure amounts, completed mortgage loan dates and loan values reviewed generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in this report.

The audit covered the period FY 1998 through FY 2002 and was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

A summary of the potential benefits resulting from the audit is shown as Exhibit A.

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 1: MAXIMIZING PRIVATE SECTOR FUNDS</b>
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### SYNOPSIS

DHCD did not invest HOME funds in a manner that maximized the use of private sector financing to help finance mortgage loans for District of Columbia residents. During FY 1998 through FY 2001, DHCD executed four grant agreements with DCHFA to transfer \$6.2 million in HOME funds and District of Columbia HOME repayment funds to support DCHFA mortgage revenue bond programs that provided low-interest rate mortgage loans. DHCD did not obtain the maximum use of private sector financing because the ratio (leverage) of private financing to government funds achieved by DCHFA was significantly lower than the leverage obtained by the other major organization used by DHCD to provide assistance to finance mortgage loans. As a result of the transfer of HOME funds and District of Columbia HOME repayment funds to DCHFA, DHCD lost the opportunity to obtain as much as \$32.2 million in private sector financing to invest in mortgage loans for District of Columbia residents.

### DISCUSSION

During FY 1998 through FY 2002, DHCD primarily used two organizations as subrecipients of HOME funds to help finance mortgage loans for District of Columbia residents. Those organizations used two different approaches to provide mortgage loans.

The Greater Washington Urban League used government funding (such as HOME funds, Community Development Block Grant funds, and District of Columbia matching and associated repayment funds) to assist first-time homebuyers in meeting eligibility requirements necessary to attract commercial lenders (see Exhibit B).

DCHFA used the proceeds of bonds sold to investors from its tax-free Single Family Mortgage Revenue Bond Program to offer below-market interest rates to first-time homebuyers (see Exhibit C). In addition, during FY 1998 through FY 2002, DCHFA also used HOME funds and District of Columbia HOME repayment funds provided by DHCD to combine with the proceeds of a portion of its bond sales.

#### Single Family Revenue Bond Program

Six DCHFA Single Family Mortgage Revenue Bond issues were leveraged to reduce interest rates on DCHFA mortgage loans by combining the transferred funds (\$6,200,000) together with portions of sales proceeds from the six DCHFA Single Family Mortgage Revenue Bond

## FINDINGS AND RECOMMENDATIONS

issues (\$7,896,000). The combined or total amount of \$14,096,000 was used to provide mortgage loans at interest rates ranging from 3.75 to 4.30 percent.

Table 1 provides a listing of the Grant Agreements, the mortgage bond series number associated with the Grant Agreements, the proceeds of the bond sales that were combined with the transferred funds, and the allocation of the blended funds. Table 1 also shows the corresponding loan rates offered to first-time homebuyers.

**Table 1. Listing of Grant Agreements, Bond Series, Funds Provided, Associated Bond and HOME Funds Blended Ratios, and Loan Rates Offered**

DHCD Grant Agreement Number	DCHFA Mortgage Bond Series Number	Funds Provided to DCHFA For Mortgage Loans (millions)		DCHFA Allocation of Blended Funds (percent)		DCHFA Individual Mortgage Loan Rate Offered (percent)
		Bond <sup>2</sup>	HOME <sup>3</sup>	Bond	HOME	
1998-33	1998A	\$1.725	\$1.000	63.30	36.70	4.00
1999-20	1999A		.200 <sup>4</sup>			
1999-39	2000A	2.180	2.000	52.15	47.85	4.00
2000-16 <sup>1</sup>	2001A	2.075	1.600	56.46	43.54	3.75
2000-16 <sup>1</sup>	2000A-1	.600	.448	57.25	42.75	4.30
2000-16 <sup>1</sup>	2000A-2	1.316	.952	58.02	41.98	4.30
	<b>Total</b>	<b>\$7.896</b>	<b>\$6.200</b>			

<sup>1</sup> DCHFA allocated HOME funds, that had been provided in Grant Agreement Number 00-16, to 3 separate Single Family Mortgage Revenue Bond issues in the amounts of \$1,600,000, \$448,000, and \$952,000, respectively.

<sup>2</sup> Proceeds on bond sales allocated to this program by DCHFA.

<sup>3</sup> HOME funds transferred by DHCD to DCHFA.

<sup>4</sup> District of Columbia HOME repayment funds were incorporated into a preexisting single-family mortgage revenue bond program.

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## FINDINGS AND RECOMMENDATIONS

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### **Consolidated Plan for the District of Columbia**

The Consolidated Plan for the District of Columbia (Consolidated Plan) presents a coordinated approach to the District of Columbia's housing and community needs (see Exhibit D). The Director, DHCD, serves as the administrator of the HOME grant, as well as the Community Development Block Grant and the Emergency Shelter Grant, and in this role prepares the Consolidated Plan for the District of Columbia. The Consolidated Plan includes an annual Action Plan that outlines a budget and schedule of housing and community development activities that DHCD intends to undertake during a particular fiscal year. The annual submission of an Action Plan to HUD is required by the National Affordable Housing Act in order for the District of Columbia to be eligible to receive HUD entitlement grant funds.

**Policies for Private Financial Resources.** The Action Plans for FY 1998 through FY 2002 provide policies stating that the grant award criteria of the District of Columbia's housing and community development programs require the maximum use of private financial resources, and that whenever possible, public funds are to be used to close the gap in providing the financing needed for selected projects. *See generally* DEP'T OF HOUS. AND CMTY. DEV. CONSOLIDATED PLAN FOR THE DISTRICT OF COLUMBIA: FISCAL YEAR 1998 ACTION PLAN (1997) at 11.

The Action Plans for FY 1998 through FY 2002 also state, as a home ownership or homebuyer assistance and housing recycling and preservation initiative, that private sector participation and leveraging of public funds with private resources be increased to improve the effectiveness of current ownership programs. *See generally* DEP'T OF HOUS. AND CMTY. DEV. CONSOLIDATED PLAN FOR THE DISTRICT OF COLUMBIA: FISCAL YEAR 1998 -2002 ACTION PLANS (1997 - 2001).

**The Mayor's City-Wide Strategic Plan.** In the Mayor's City-Wide Strategic Plan, DHCD is the lead agency on nine action items in two of the goal areas in the Economic Development Strategic Plan portion of the overall plan. One action item requires DHCD to provide interagency coordination among DHCD, the Department of Consumer and Regulatory Affairs, the Office of Planning, the District of Columbia Housing Authority, and DCHFA to maximize the impact of public dollars. Another action item requires DHCD to generate private capital by establishing a new Housing Trust Fund (see Exhibit E).

### **Leveraging Private Sector Funds**

DHCD did not invest HOME funds in a manner that maximized the use of private sector financing to help finance mortgage loans for District of Columbia residents. DHCD did not obtain the maximum use of private sector financing because the leverage of private financing

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## FINDINGS AND RECOMMENDATIONS

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to government funds achieved by DCHFA was significantly lower than the leverage obtained by DHCD through the Greater Washington Urban League mortgage loans. The leverage rate may be defined as the ratio of the private financing portion of mortgage loans obtained by an organization to the government funds portion of mortgage loans obtained by the same organization.

**The DCHFA Leverage Rate.** To determine the DCHFA leverage rate, we used data from documents provided by DCHFA to DHCD to report beneficiary data (detailed summary information on mortgage loans completed). DCHFA completed 108 mortgage loans as of June 6, 2002 (the date of the last available beneficiary report provided to DHCD by DCHFA), for 5 of the 6 mortgage revenue bond series.

Using the data provided by DCHFA, we determined the DCHFA leverage rate for each of the five mortgage revenue bond series associated with the HOME funds provided to DCHFA, except for Mortgage Bond Series 1999A (the beneficiary report for Mortgage Bond Series 1999A was neither requested by DHCD nor provided by DCHFA to DHCD).

We calculated the leverage rate by dividing the dollars for the private financing portion of the mortgage loans by the government funds portion of the mortgage loans. The overall average leverage rate for the five mortgage revenue bond series shows that DCHFA obtained \$1.31 in private financing for each \$1.00 of government funds. Table 2 provides the computation details of the DCHFA leverage rate.



## FINDINGS AND RECOMMENDATIONS

**Table 2. Computation of the Leverage Rate for the District of Columbia Finance Housing Agency**

DHCD Grant Agreement Number	DCHFA Mortgage Bond Series Number	DCHFA Mortgage Loans Completed	Mortgage Loans		DCHFA Leverage Rate Obtained <sup>4</sup>
			DCHFA Private Financing Portion <sup>2</sup>	DCHFA Government Funds Portion <sup>3</sup>	
1998-33	1998A	29	\$1,677,067	\$ 972,328	1.72
1999-20	1999A				
1999-39	2000A	39	2,128,988	1,953,209	1.09
2000-16	2001A	29 <sup>1</sup>	1,977,662	1,525,539	1.30
2000-16	2000A-1	2 <sup>1</sup>	169,484	126,516	1.34
2000-16	2000D-1	9 <sup>1</sup>	610,325	441,525	1.38
	<b>Total</b>	<b>108</b>	<b>\$6,563,526</b>	<b>\$5,019,117</b>	<b>1.31</b>

<sup>1</sup> Mortgage loans completed as of June 6, 2002. The funds for these bond series loans have not been fully utilized and mortgage loans may continue to be completed.

<sup>2</sup> Actual amount of private financing used for the mortgage loans. The source of the private financing is a portion of the proceeds from sales of the applicable mortgage bond series.

<sup>3</sup> Actual amount of government funding used for the mortgage loans. The source of the government funding is the HOME funds transferred by DHCD to DCHFA.

<sup>4</sup> The leverage rate is the ratio of the private financing portion of the mortgage loans to the government funds portion of the mortgage loans.

**The DHCD Leverage Rate.** To determine the DHCD leverage rate, we used data from documents provided by the Greater Washington Urban League to DHCD to report beneficiary data for the Home Purchase Assistance Program (HPAP) managed by DHCD.

Although the Greater Washington Urban League also makes mortgage loans for the Employer Assisted Housing Program and the Metropolitan Police Housing Assistance Program (see Exhibit B), we did not include data from those two programs in the calculation of the DHCD leverage rate. The Greater Washington Urban League completed 1,140 HPAP mortgage loans for FYs 1998, 2000, and 2001 (we did not examine the beneficiary reports

## FINDINGS AND RECOMMENDATIONS

provided to DHCD by the Greater Washington Urban League for FY 1999 HPAP mortgage loans).

Using the HPAP data, we determined the DHCD leverage rate for FYs 1998, 2000, and 2001. We calculated the leverage rate by dividing the dollars for the private financing portion of the mortgage loans by the government funds portion of the mortgage loans. The overall average leverage rate for the 3 fiscal years shows that DHCD obtained \$6.38 in private financing for each \$1.00 of government funds. Table 3 provides the computation details of the DHCD leverage rate.

**Table 3. Computation of the Leverage Rate for the  
Department of Housing and Community Development**

Fiscal Year	DHCD Mortgage Loans Completed	DHCD Private Financing Portion <sup>1</sup>	DHCD Government Funds Portion <sup>2</sup>	DHCD Leverage Rate Obtained <sup>3</sup>
1998	410	\$ 35,427,926	\$ 6,169,149	5.75
2000	329	31,185,814	4,948,354	6.30
2001	401	38,666,637	5,388,218	7.18
<b>Total</b>	<b>1,140</b>	<b>\$105,280,377</b>	<b>\$16,505,721</b>	<b>6.38</b>

<sup>1</sup> Actual amount of private financing used for the mortgage loans. The sources of the private financing are the mortgage loans made by commercial lenders.

<sup>2</sup> Actual amount of government funding used for the mortgage loans. The sources of the government funding are HOME funds, Community Development Block Grant Program funds, and District of Columbia matching and associated repayment funds.

<sup>3</sup> The leverage rate is the ratio of the private financing portion of the mortgage loans to the government funds portion of the mortgage loans.

The Greater Washington Urban League incurs expenses in the course of making mortgage loans and those expenses are reimbursed with HOME funds as part of the gross HOME funds provided by DHCD. However, we used only the actual government portion of mortgage loans (the net HOME funds used by the Greater Washington Urban League after expenses) to calculate the DHCD leverage rate.

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**Opportunities for Private Financing Investment.** To determine opportunities for private financing investment for the \$6.2 million in HOME funds and District of Columbia HOME repayment funds transferred to support DCHFA mortgage revenue bond programs, we compared the leverage rates of DCHFA to the leverage rates of DHCD. Table 4 provides the computation details of the opportunities for private financing investment.

**Table 4. Computation of Opportunities for Private Financing Investment**

Fiscal Year	Funds Provided To DCHFA For Mortgage Loans <sup>1</sup>	DHCD Leverage Rate	DCHFA Leverage Rate	Difference In Leverage Rates <sup>3</sup>	Lost Opportunity For Investment <sup>5</sup>
1998	\$1,000,000	5.74	1.72	4.02	\$ 4,020,000
1999	200,000			4.02 <sup>4</sup>	804,000
2000	2,000,000	6.30	1.09	5.21	10,420,000
2001	1,600,000	7.18	1.30	5.88	9,408,000
2002	448,000	6.76 <sup>2</sup>	1.34	5.42	2,428,160
2002	952,000	6.76 <sup>2</sup>	1.38	5.38	5,121,760
<b>Total</b>	<b>\$6,200,000</b>				<b>\$32,201,920</b>

<sup>1</sup> HOME funds and District of Columbia repayment funds transferred by DHCD to DCHFA.

<sup>2</sup> For the purposes of this table, we used an averaged DHCD leverage rate for FYs 2000 and 2001 to provide a DHCD leverage rate for FY 2002.

<sup>3</sup> The DCHFA leverage rate was subtracted from the DHCD leverage rate to obtain the difference in leverage rates.

<sup>4</sup> For purposes of this table, we used the difference in leverage rates calculated for FY 1998 to show the difference in leverage rates for FY 1999.

<sup>5</sup> The amount of funds that may have been invested in single-family home purchases for first-time homebuyers if the \$6,200,000 of HOME funds and District of Columbia repayment funds transferred to DCHFA had instead been invested by DHCD at its leverage rates.

Using the data found in Tables 2 and 3, we calculated the difference in leverage rates for the fiscal years the provided funds were used by DCHFA (corresponding to each of the six mortgage revenue bond series associated with the provided funds). In each case for comparison, the DHCD leverage rate was greater than the DCHFA leverage rate; therefore, we subtracted the DCHFA leverage rate from the DHCD leverage rate to obtain the

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## FINDINGS AND RECOMMENDATIONS

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difference. We then multiplied the difference in leverage rates by the corresponding funds provided to DCHFA to determine the amount of funds that may have been invested in mortgage loans if the \$6.2 million transferred to DCHFA had instead been invested by DHCD at its leverage rates.

**Business Case Decision.** Documentation contained in the DHCD project files for the four Grant Agreements did not indicate that any other alternatives, other than the DCHFA mortgage revenue bond programs, were considered as methods to provide assistance to low-income to moderate-income first-time homebuyers or to maximize the use of private financing resources. In addition, no business decision-making process was used to determine that providing funds to DCHFA was a sound business decision or, if so, there was a lack of documentation to support such a process. Further, we found no evidence that the practice of providing funds to DCHFA was reviewed in an oversight process subsequent to the initiation of the practice. The lack of oversight for the DHCD HOME program is discussed in more detail in Finding 3, as are recommendations to improve DHCD HOME program management and oversight.

### Conclusion

DHCD lost the opportunity to obtain as much as \$32.2 million in private sector financing to invest in mortgage loans for District of Columbia residents as a result of having transferred HOME funds and District of Columbia HOME repayment funds to DCHFA.

**Policy Requirements.** Policies articulated in the Action Plans for FYs 1998 through 2002 stipulate that the grant award criteria of the District of Columbia's housing and community development programs require the maximum use of private financial resources. The transfer of \$6.2 million in HOME funds and District of Columbia repayment funds to DCHFA did not comply with the stated policy to maximize the use of private financial resources and was not a sound business decision. Further, due to the lack of documentation in the DHCD project files for the four Grant Agreements, we cannot opine as to whether the transfer of the funds to DCHFA was a specific policy change or an unforeseen contingency at the time of its initiation. DHCD should reassess the District of Columbia HOME program to develop new and more innovative District of Columbia policies and strategies to maximize the use and effectiveness of private financial resources.

**Increasing Private Sector Participation.** Policies articulated in the Action Plans for FYs 1998 through 2002 also require that private sector participation and leveraging of public funds with private resources be increased to improve the effectiveness of current ownership programs. Further, 24 CFR §92.508(a)(2)(i), dated September 16, 1996, requires maintenance of records detailing efforts to maximize participation by the private sector. However, documentation contained in DHCD project files for the four Grant Agreements did

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## FINDINGS AND RECOMMENDATIONS

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not indicate that any other initiatives were taken to increase private sector participation or the leveraging of public funds with private resources.

**DHCD Coordination Role.** The Director, DHCD, serves as the administrator of the HOME program for the District of Columbia and is charged by the Mayor's City-Wide Strategic Plan to provide interagency coordination among DHCD, the Department of Consumer and Regulatory Affairs, the Office of Planning, the District of Columbia Housing Authority, and DCHFA to maximize the impact of public dollars and to generate private capital by establishing a new Housing Trust Fund. In these roles as the District of Columbia planner and coordinator for the HOME program, we believe the Director, DHCD, should consider two initiatives (but not be limited to these two) to provide interagency coordination to maximize the impact of public dollars.

**Home Purchase Trust Fund.** In our opinion, the Director, DHCD, should develop a plan to establish a home purchase trust fund that provides additional support for the Mayor's City-Wide Strategic Plan. The purpose would be to operate the trust fund as a revolving fund to provide an additional source of financial assistance to low-income to moderate-income first-time homebuyers. The District of Columbia Housing Production Trust Fund (discussed in Exhibit E) provides an example of this concept.

A home purchase trust fund could provide assistance in a manner similar to either the DHCD HOME program (with its more limited monetary assistance) or the DCHFA bond program (with its more limited number of loans), except that it should be developed to identify potential homeowners that lie between the two programs. A home purchase trust fund should provide greater monetary assistance than the HOME program and should also provide assistance to a greater number of potential first-time homebuyers than the DCHFA bond program.

The home purchase trust fund should acquire public, quasi-public, and private funds from various sources to establish the capital for its revolving fund. Those sources could include public organizations such as federal agency grants and District of Columbia funds, quasi-public organizations such as the federal financing institutions that provide a secondary market for housing financing, and private nonprofit organizations and foundations that support housing initiatives.

### RECOMMENDATION 1

We recommended that the Director, Department of Housing and Community Development reassess the Department of Housing and Community Development HOME Investment Partnerships Program to develop District of Columbia policies and strategies to maximize the

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## FINDINGS AND RECOMMENDATIONS

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use and effectiveness of private financial resources. The results should be incorporated into the Consolidated Plan for the District of Columbia.

### **DHCD Response**

DHCD officials stated in their response that they agree with the recommendation and will reassess their HOME program strategies for maximizing the use of private financial resources by the end of calendar year 2002. The reassessment will be included in the Consolidated Plan for the District of Columbia. DHCD officials also stated that it is important to note that while they agree with the need to try to maximize leverage for its investments, the DHCD overall goal is to achieve the greatest public benefit for the provision of affordable housing to low-income to moderate-income households. Sometimes, the objective to maximize leverage for investments will not be achieved in light of the overall goal of providing affordable housing.

### **OIG Comment**

The response meets the intent of the recommendation and the action planned by DHCD should correct the condition noted.

## **RECOMMENDATION 2**

We recommended that the Director, Department of Housing and Community Development evaluate the use of a home purchase trust fund to operate as a revolving fund and to provide an additional source of financial assistance to low-income to moderate-income first-time homebuyers in the District of Columbia. This initiative should be pursued in coordination with policies and strategies developed in accordance with Recommendation 1.

### **DHCD Response**

DHCD officials stated in their response that they do not concur with the recommendation. DHCD officials stated that DHCD recently evaluated the current Housing Production Trust Fund statute, and found that the statute does not allow the Housing Production Trust Fund to be used as a viable source to implement the recommendation. In addition, DHCD officials stated that the Home Purchase Assistance Program (HPAP) already operates as a revolving fund, in that repayments of HPAP monies are used to make new HPAP loans. Further, DHCD officials stated that they are pursuing other initiatives with private sector enterprises to provide financial assistance to low-income to moderate-income persons for affordable housing. While the result may not be a revolving fund managed and operated by DHCD, one program involves several financial institutions partnering with DHCD to provide homebuyer financial assistance to a targeted population.

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## FINDINGS AND RECOMMENDATIONS

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### OIG Comment

The response does not fully meet the intent of the recommendation. Although DHCD officials noted that they were pursuing other initiatives, insufficient details were provided for us to assess whether or not those initiatives meet the intent of the recommendation. Further, the fact that the HPAP is already a revolving fund is not relevant to the intent of the recommendation. The intent of the recommendation was to seek public, quasi-public, and private sector funds from various sources to provide an additional source of financial assistance to low-income to moderate-income first-time homebuyers and to maximize the potential of those funds by the use of a revolving fund to make new loans. We request that DHCD officials reconsider their position in their response to the final audit report and provide us with sufficient details of their plans so that we may evaluate those plans in light of the recommendation. We do agree with the DHCD position concerning the Housing Production Trust Fund and have revised our recommendation by removing reference to the Housing Production Trust Fund.

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 2: DRAWDOWN OF HOME FUNDS REIMBURSABLE COSTS</b>
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### SYNOPSIS

DHCD did not submit eligible costs to HUD for drawdown for the HOME portion of 28 of 108 mortgage loans (26 percent) completed by DCHFA. The HOME funds portion of the mortgage loans completed by DCHFA is considered to be an eligible reimbursable HOME cost. DHCD did not submit eligible costs to HUD for drawdown because DHCD did not comply with applicable federal regulations requiring day-to-day management of its Home program operations. In addition, DHCD did not have specific procedures and controls in place to ensure that periodic account reconciliations were performed on mortgage loans reported by DCHFA that needed to be submitted to HUD for drawdown. As a result, DHCD failed to obtain \$1,315,178 in reimbursable HOME costs from HUD for the 28 completed mortgage loans and to reimburse District of Columbia general fund accounts in a timely manner.

### DISCUSSION

Federal regulations provide guidance for the management of HOME funds by participating jurisdictions. The guidance is found in Title 24 of the CFR, Part 92, HOME Investment Partnerships Program, dated September 16, 1996. Title 24 CFR Part 92 includes May 28, 1997, technical corrections and August 22, 1997, amendments.

**Federal Regulations Concerning Drawdowns.** Title 24 CFR § 92.502(b)(1) requires a participating jurisdiction to enter complete project set-up information (the identification of specific investments in the HUD IDIS) at the time of the project set-up. Title 24 CFR § 92.502(c)(1) states that after complete project set-up information has been entered into the IDIS, HOME funds for the project may be drawn down from the United States Treasury account by the participating jurisdiction through electronic funds transfer.

**Federal Regulations Concerning the Management of the HOME Program.** Title 24 CFR § 92.504(a) states that a participating jurisdiction is responsible for: managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate actions when performance problems arise. Title 24 CFR § 92.508(a) requires that each participating jurisdiction establish and maintain sufficient records and 24 CFR § 92.508(a)(5)(iv) requires that records maintained at participating jurisdictions demonstrate adequate budget control, including evidence of periodic account reconciliations.



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### Grant Agreements

Grant Agreements 1998-33, 1999-39, and 2000-16 provided for one-time transfers totaling \$6 million of HOME funds to DCHFA to make mortgage loans. The HOME portion of those loans is considered to be an eligible reimbursable HOME cost. Grant Agreement 1999-20 provided for a one-time transfer of \$200,000 of District of Columbia HOME repayment funds to DCHFA to make mortgage loans but the mortgage loans completed with those particular funds were not subject to drawdown from HUD. Table 5 provides the details on the completed mortgage loans that were not submitted to HUD and the associated Grant Agreements and funding.

**Table 5. Drawdowns (for Completed Mortgage Loans) Not Submitted to the U.S. Department of Housing and Urban Development**

DHCD Grant Agreement Number	DCHFA Mortgage Bond Series Number	DCHFA Mortgage Loans Completed <sup>2</sup>	Mortgage Loans		Drawdowns (For Completed Mortgage Loans) Not Submitted to HUD <sup>5</sup>
			DCHFA Private Financing Portion <sup>3</sup>	DCHFA Government Funds Portion <sup>4</sup>	
1998-33	1998A	29	\$1,677,067	\$ 972,328	0
1999-20 <sup>1</sup>	1999A				
1999-39	2000A	39	2,128,988	1,953,209	7
2000-16	2001A	29	1,977,662	1,525,539	10
2000-16	2000A-1	2	169,484	126,516	2
2000-16	2000D-1	9	610,325	441,525	9
<b>Total</b>		<b>108</b>	<b>\$6,563,526</b>	<b>\$5,019,117</b>	<b>28</b>

<sup>1</sup> Grant Agreement 1999-20 provided District of Columbia HOME repayment funds not subject to HUD drawdown.

<sup>2</sup> Mortgage loans completed as of June 6, 2002.

<sup>3</sup> Actual amount of private financing used for the mortgage loans. The source of the private financing is a portion of the proceeds from sales of the applicable mortgage bond series.

<sup>4</sup> Actual amount of government funding used for the mortgage loans. The source of the government funding is the HOME funds transferred by DHCD to DCHFA.

<sup>5</sup> Reconciliation performed as of August 2, 2002.

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### **Drawdown of Home Reimbursable Costs**

DHCD did not submit eligible costs to HUD for drawdown for the HOME portion of 28 of 108 mortgage loans (26 percent) completed by DCHFA. The HOME funds portion of the mortgage loans completed by DCHFA is considered by HUD to be an eligible reimbursable HOME cost.

**Completed Mortgage Loans.** Between September 9, 1998, and June 6, 2002, DCHFA completed 108 mortgage loans, using a combination of HOME funds provided by DHCD and portions of DCHFA bond sales proceeds. DCHFA reported beneficiary data for those loans to DHCD. The beneficiary report contained the name, address, the amount of the HOME funded portion of the mortgage loan, the amount of the mortgage revenue bond funded portion of the mortgage loan, the total mortgage loan amount, and other types of data. The report also showed the mortgage loans completed during the reported period and the mortgage loans that had been initiated but were still in the closing process.

Within DHCD, the Residential and Community Services Division received the beneficiary report. In the prior procedure, personnel of the Residential and Community Services Division were to set-up projects directly on the IDIS using the mortgage loan data provided by DCHFA. The current procedure requires the projects to be set-up on the DHCD Housing and Development Software (HDS) system to obtain IDIS numbers. The HDS is a DHCD system that began operation in 2002 to track grant funds, project set-ups, and disbursements and to interface with the IDIS. Once the set-up has been completed in IDIS, HOME funds for a project may be drawn down from HUD (through a United States Treasury account) by the participating jurisdiction through electronic funds transfer. The DHCD comptroller initiates this action, once the funds are internally authorized to be drawn down, by electronically submitting to HUD a request for reimbursement of those eligible HOME costs.

**Reconciliation of Mortgage Loans Reported.** We performed a reconciliation of completed mortgage loans reported by DCHFA against a HUD IDIS report entitled "List of Activities by Program Year and Project, District of Columbia." That report shows mortgage loans that have been completed and drawn down from HUD by DHCD. We performed this reconciliation three times: June 10, 2002; July 8, 2002; and August 2, 2002. To perform the reconciliation, we used the DCHFA beneficiary reports and the "List of Activities by Program Year and Project, District of Columbia." Our reconciliation showed that 28 mortgage loans, with a HOME portion valued at \$1,315,178, were never submitted to HUD by DHCD for reimbursement. We provided the results of our reconciliations to the Residential and Community Services Division on July 8, 2002, and again on August 2, 2002.

In August 2002, DHCD took action to resolve a data entry problem with HUD concerning IDIS edit standards. The IDIS edit standards required that certain data be entered into the

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IDIS (through the HDS system) that was not readily available to DHCD. This situation caused delays in the completion of funding by DHCD. A resolution of the problem was reached with HUD and DHCD initiated action to begin entering funding information into the HDS system during the week of August 19, 2002. As a result, the drawdowns for the 28 mortgage loans were completed by August 30, 2002, and the funds amounting to \$1,315,178 were deposited in District of Columbia general fund accounts.

Further, we determined the elapsed days from the completion date of the 28 mortgage loans through August 2, 2002. The elapsed days ranged from a low of 77 days to a high of 574 days between the mortgage loans' completion dates and August 2, 2002. Table 6 shows the range of elapsed time in days since the completion dates of those 28 mortgage loans and the value of the HOME portion of the mortgage loans.

<b>Table 6. Analysis of Lapsed Days Since Mortgage Loan Completion Date</b>		
<b>Range of Days Between Mortgage Loan Completion Date and August 2, 2002</b>	<b>Number of Completed Mortgage Loans Not Submitted to HUD</b>	<b>HOME Portion of Completed Mortgage Loans</b>
1-90	6	\$277,494
91-180	8	495,566
181-365	7	291,831
Greater than 366	7	250,287
<b>Total</b>	<b>28</b>	<b>\$1,315,178</b>

### Compliance with Federal Regulations

DHCD did not submit eligible costs to HUD for drawdown because DHCD did not comply with applicable federal regulations requiring day-to-day management of its Home program operations. In addition, DHCD did not have specific procedures and controls in place to ensure that periodic account reconciliations were performed on mortgage loans reported by DCHFA that needed to be submitted to HUD for drawdown.

**Managing Day-to-Day Operations.** DHCD did not adequately manage the day-to-day operations of its HOME program to ensure that HOME funds were promptly drawn down nor did DHCD take appropriate actions when performance problems arose. Although the information on the 28 completed mortgage loans was available through beneficiary reports

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submitted by DCHFA to DHCD, the information for those mortgage loans was not used to enter project set-ups into the IDIS. Therefore, DHCD was unable to initiate the drawdown of HOME funds from HUD.

**Procedures and Controls.** Further, DHCD did not have written procedures and controls in place concerning the process to drawdown HOME funds from HUD. DHCD did not maintain adequate records to show the drawdown processes or periodic account reconciliations. As of August 19, 2002, no documentation has been provided the Office of the Inspector General (OIG) to show the processes for drawdowns. Without written procedures and adequate records, we were unable to verify the efficiency of processes and verify the validity of internal controls. Further, without written procedures to describe necessary processes and internal controls and adequate records to document the processes, DHCD management cannot effectively ensure accountability of personnel in accomplishing its mission and may be subject to potential fraud or waste in its operations.

### Conclusion

DHCD failed to obtain \$1,315,178 in reimbursable HOME costs from HUD for the 28 completed mortgage loans and to reimburse District of Columbia general fund accounts in a timely manner.

After we notified DHCD that HOME funds had not been drawn down and deposited in District of Columbia general fund accounts, DHCD initiated action to resolve a data entry problem with HUD at the beginning of August 2002 and began entering funding information into the HDS system during the middle of August 2002. As a result, the drawdowns for the 28 mortgage loans were completed by August 30, 2002, and the funds amounting to \$1,315,178 were deposited in District of Columbia general fund accounts. However, we note that the failure to promptly drawdown HOME funds (at least monthly) may result in unnecessary interest costs being incurred by the District of Columbia due to the untimely reimbursement of its general fund accounts. We did not determine the amount of those potential interest costs for the \$1,315,178.

Further, the lack of a formalized process to periodically reconcile mortgage loan settlement data does not ensure that all costs identified for a HOME funded grant agreement or associated mortgage loans will be totally reimbursed by HUD. Periodic reconciliation of completed mortgage loans would identify those reported eligible HOME costs that have not been submitted to HUD for reimbursement. We believe that DHCD should develop, document, and implement written procedures and controls for the Residential and Community Services Division to ensure that all eligible HOME costs are submitted to HUD for reimbursement in a timely manner. Finally, we believe that DHCD should develop and

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implement a process for record keeping to ensure that adequate records are maintained to document the drawdown process.

### **RECOMMENDATION 3**

We recommended that the Director, Department of Housing and Community Development establish specific written procedures and internal controls to ensure that all eligible HOME Investment Partnerships Program costs are submitted to the U.S. Department of Housing and Urban Development for reimbursement in a timely manner (but not less than monthly) and that adequate records are maintained to document the process.

### **DHCD Response**

DHCD officials stated in their response that they agree with the recommendation and have begun to develop the recommended procedures. An Administrative Issuance detailing the procedures will be prepared for implementation no later than November 30, 2002. In addition, DHCD officials stated that they plan to designate a HOME Coordinator within the Office of Program Monitoring by November 1, 2002, to consolidate the overall oversight of the HOME grant.

### **OIG Comment**

The response meets the intent of the recommendation and the actions planned by DHCD should correct the condition noted. We commend DHCD for the initiatives taken in response to this recommendation.

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### FINDING 3: VALIDATION OF HOME FUNDS DRAWDOWN

#### SYNOPSIS

In December 1998, DHCD requested and received from HUD a drawdown of \$1 million of HOME funds without providing satisfactory information necessary to validate the drawdown. The drawdown appeared to be related to Grant Agreement Number 98-33 made between DHCD and DCHFA. The inappropriate drawdown occurred because DHCD did not comply with applicable federal regulations concerning the drawdown of HOME funds, did not exercise adequate oversight regarding the use of the HOME funds by DCHFA, and did not establish written internal control procedures for the drawdown or oversight processes. As a result, DHCD obtained a drawdown of HOME funds from HUD that exceeded (by \$27,673) the \$972,327 to which it was entitled and did not pay interest earned on unexpended drawdown amounts due HUD. Further, due to the lack of adequate documentation, it cannot be clearly determined whether the drawdown requested and received by DHCD was authorized in accordance with federal regulations, related directly to Grant Agreement Number 98-33, occurred as a result of the lack of DHCD internal control procedures, occurred as a result of a violation of DHCD internal control procedures, or a combination of one or more of these factors.

#### DISCUSSION

Federal regulations provide guidance for the management of HOME funds by participating jurisdictions. The guidance is found in Title 24 of the CFR, Part 92, HOME Investment Partnerships Program, dated September 16, 1996. Title 24 CFR Part 92 includes May 28, 1997, technical corrections and August 22, 1997, amendments.

**Federal Regulations Concerning Drawdowns from HUD.** Title 24 CFR § 92.502(b)(1) requires a participating jurisdiction to enter complete project set-up information at the time of the project set-up. Next, 24 CFR § 92.502(c)(1) states that any drawdown of HOME funds from the United States Treasury is conditioned upon the provision of satisfactory information by the participating jurisdiction about the project and compliance with other procedures. Further, 24 CFR § 92.502(c)(2) states that HOME funds drawn from the United States Treasury must be expended for eligible costs within 15 days. Title 24 CFR § 92.502(c)(2) also states that any funds drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD, and that interest earned after 15 days belongs to the United States and must be remitted promptly to HUD. Finally, 24 CFR § 92.502(d)(1) states that complete project completion information must be entered into the disbursement and information system within 120 days of the final project drawdown.

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**Federal Regulations Concerning the Management of the HOME Program.** Title 24 CFR § 92.504(a) states that a participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements, and taking appropriate actions when performance problems arise. Next, 24 CFR § 92.508(a) requires that each participating jurisdiction establishes and maintains sufficient records. Further, 24 CFR § 92.508(a)(3)(i) requires a full description of each activity assisted with HOME funds. Finally, 24 CFR § 92.508(a)(6)(i) requires that records demonstrate compliance with written agreements.

### **Grant Agreement Number 98-33**

Grant Agreement Number 98-33 (Grant Agreement) was executed between the District of Columbia (represented by DHCD) and DCHFA on June 23, 1998. It provided for a one-time transfer of \$1 million of HOME funds to DCHFA for the purpose of funding a bond issuance.

Specifically, DCHFA Single Family Mortgage Revenue Bonds, Series 1998A, were leveraged to reduce interest rates on DCHFA mortgage loans by combining the transferred \$1 million HOME funds together with a portion of the Series 1998A bond sales proceeds that amounted to \$1,725,159. The total amount of \$2,725,159 was used to provide mortgage loans at a 4-percent interest rate. Twenty-nine mortgage loans were made with those funds from September 9, 1998, through October 28, 1999. The Grant Agreement was to remain in effect through June 30, 1999, or until DCHFA had expended all HOME funds in the Single Family Mortgage Revenue Bond Program that had been combined with the Series 1998A bond proceeds.

### **Validation of Home Funds Drawdown**

In December 1998, DHCD requested and received from HUD a drawdown of \$1 million of HOME funds without providing satisfactory information necessary to validate the drawdown. The drawdown appeared to be related to the Grant Agreement made between DHCD and DCHFA. According to a HUD IDIS “Drawdown Report by Voucher Number” dated June 7, 2002, the \$1 million was disbursed by HUD to DHCD on December 4, 1998, in two amounts, \$296,116.43 and \$703,883.57.

**Project Office Support Data.** In accordance with the Grant Agreement, DCHFA provided a document entitled, “Series 1998A Monument III (4.00%), HOMERATE Program \$2,725,159.00 [Series 1998A Monument III document],” dated November 8, 1999, to report beneficiary data to DHCD. This document may have been received at DHCD in November 1999, although no evidence of receipt or transmission was found in the DHCD files. In any

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event, at the earliest, the Series 1998A Monument III document was received more than 11 months after the drawdown had taken place.

From the DHCD files provided to us and the Series 1998A Monument III document showing the completed mortgage loans, we determined the following sequence of events:

- DHCD disbursed \$1 million of HOME funds to DCHFA on July 7, 1998;
- DCHFA completed its first mortgage loan on September 9, 1998;
- DCHFA completed 10 mortgage loans by December 3, 1998 (the HOME portion of the 10 mortgage loans amounted to \$354,210);
- DHCD requested and received from HUD a drawdown of \$1 million of HOME funds on December 4, 1998;
- DCHFA completed 29 mortgage loans by October 28, 1999 (the HOME portion of the 19 mortgage loans made after December 3, 1998, amounted to \$618,117); and
- DCHFA prepared the Series 1998A Monument III document on November 8, 1999 (the HOME portion of the 29 mortgage loans amounted to \$972,327).

**Documentation.** As such, no documentation showing the completed mortgage loans at DCHFA was obtained by DHCD to validate the drawdown that occurred on December 4, 1998. The documentation was not available because the Series 1998A Monument III document showing the completed mortgage loans was not prepared by DCHFA until November 8, 1999. As of the date of this draft audit report, DHCD had not provided any other documentation to explain the process to obtain the drawdown, the validity of the drawdown, or the specific reason that the drawdown was processed on December 4, 1998.

### **Compliance with Federal Regulations**

Overall, the inappropriate drawdown occurred on December 4, 1998, because DHCD did not comply with applicable federal regulations concerning the drawdown of HOME funds, did not exercise adequate oversight regarding the use of the HOME funds by DCHFA, and did not establish written internal control procedures for the drawdown or oversight processes.

**Project Oversight Responsibility.** The DHCD Residential and Community Services Division support office had project oversight responsibility for the Grant Agreement. Based upon our review of documentation provided to us, we identified the following non-compliance with applicable federal regulations.



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## FINDINGS AND RECOMMENDATIONS

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**Project Set-Up.** DHCD did not provide documentation to prove that complete project set-up information was entered at the time of project set-up. An e-mail sent by an employee of the Residential and Community Services Division dated July 8, 2002, noted “the Activity #184-1997-HPAP-H, which is the HFA [DCHFA] HOME Contract #98-33 for \$1,000,000.” The e-mail means a single project was set-up for \$1 million. A HUD IDIS Drawdown report dated June 7, 2002, shows that \$1 million was disbursed by HUD to DHCD on December 4, 1998, against IDIS #184. The report does not show the date that IDIS # 184 was set-up. Although the 1997 shown in Activity #184-1997-HPAP-H refers to FY 1997, the Grant Agreement was signed in FY 1998.

Nevertheless, we were not provided any specific documentation (the July 8, 2002, e-mail is not adequate documentation of system transactions) concerning the set-up process or of an actual occurrence of a set-up. Therefore, we were unable to determine whether the IDIS #184, noted in the e-mail, represented the same number as the IDIS #184 shown in HUD drawdown report, and we were also unable to determine whether the two numbers were different transactions. However, given these circumstances, we have presumed for the purposes of this audit report that the two numbers represent the same transaction. Further, we were unable to verify whether the IDIS #184 was set-up before the drawdown actually occurred or on the actual date of the drawdown. In addition, as noted in the e-mail, IDIS numbers had been obtained on July 8, 2002, for the 29 mortgage loans (for the IDIS, the mortgage loans are considered individual activities) identified by the Series 1998A Monument III document. Therefore, the information for those mortgage loans was not available to provide complete project set-up information at the time of the project set-up.

**Project Information.** DHCD did not provide satisfactory information about the project and compliance with other procedures necessary for the drawdown of HOME funds from HUD. As of the date of the drawdown, the data for the mortgage loans had not been entered into the IDIS. The e-mail referenced in the previous paragraph noted that IDIS numbers had been obtained on July 8, 2002, for the 29 mortgage loans identified by the Series 1998A Monument III document. We verified on July 10, 2002, that the 29 mortgage loans had been entered into the DHCD HDS system to obtain the IDIS numbers. However, the entries were made in the HDS system more than 3 years and 7 months after the drawdown took place. As of August 6, 2002, those entries to the DHCD HDS system had not been submitted to the IDIS through the HDS system interface because of inaccuracies in the DHCD data input.

**Expenditure of HOME Funds.** DHCD did not expend the HOME funds drawn down from the United States Treasury account within 15 days of the drawdown date. Ten mortgage loans had been completed before the drawdown date and one mortgage loan was completed on December 15, 1998, but within the 15-day period (December 4, 1998 through December 19, 1998) after the drawdown date. Therefore, 18 of the 29 mortgage loans were

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## FINDINGS AND RECOMMENDATIONS

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completed after the 15-day period, and the HOME portion of those loans amounted to \$604,318. The 18 mortgage loans were completed between December 23, 1998, and October 28, 1999; the last occurring more than 10 months after the drawdown.

**Return of HOME Funds.** DHCD did not return HOME funds totaling \$604,318 to HUD. As described above, these funds were drawn down (as part of the \$1 million) but were not expended within 15 days of the drawdown date, and stemmed from 18 mortgage loans that were completed after the 15-day period.

**Interest Earned on Unexpended HOME Funds.** DHCD did not determine interest earned on unexpended HOME funds remaining 15 days after the drawdown date. Interest earnings should have been calculated for the unexpended \$604,318 of HOME funds and remitted to HUD.

**Project Completion Information.** DHCD did not enter complete project completion information into the IDIS within 120 days of the final project drawdown. On July 10, 2002, we verified that the 29 individual activities had been entered on the DHCD HDS, but those entries to the DHCD HDS system had not been submitted to HUD as of August 6, 2002. Further, because information for the 29 individual activities has not been submitted to HUD to reconcile with the original single entry of \$1 million, IDIS #184 has not been closed out on the IDIS (more than 3 years and 8 months after the drawdown occurred).

**Project Office Oversight.** In the case of this particular Grant Agreement, DHCD did not manage the day-to-day operations of its HOME program, ensure that HOME funds were used in accordance with all program requirements, and did not take appropriate actions when performance problems arose. For example, the DHCD files contained only three letters directed to DCHFA: two letters were dated October 7, 1998, and one was dated June 18, 1999. The first two letters requested the beneficiary data for each loan made under the Grant Agreement and that the "HOME Project Set-Up Form, HUD-40094" be completed and returned to DHCD. The third requested set-up sheets and completion sheets for the mortgage loans.

**Requested Beneficiary Data.** DCHFA provided the beneficiary data in the Series 1998A Monument III document. As previously noted, the data was received at DHCD at least 13 months after the information was requested from DCHFA.

**Set-Up Forms, Set-Up Sheets, and Completion Sheets.** The DHCD files did not contain any documents indicating that the request for the "HOME Project Set-Up Form, HUD-40094" was complied with by DCHFA. DHCD files did not contain any documents showing that there was follow-up on the two letters dated October 7, 1998. Further, there was no indication that DCHFA responded to the request for set-up sheets and completion

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## FINDINGS AND RECOMMENDATIONS

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sheets in that these documents were not provided to us, and we did not locate them in the DHCD files.

**Transfer of Unexpended Funds.** On June 5, 2000 (almost 2 years after the Grant Agreement was signed on June 23, 1998), DCHFA requested that the unexpended \$27,673, remaining from the \$1 million previously disbursed to DCHFA, be transferred to DCHFA to combine with its Millennium Single Family Mortgage Revenue Bonds, Series 2000. This was accomplished by a modification, dated July 21, 2000, to Grant Number 99-39, which modified the Grant Agreement. DHCD did not request the return of the unexpended \$27,673 as provided for in the Grant Agreement.

**Maintenance of Records.** Further, DHCD neither established nor maintained sufficient records to provide a full description of each activity assisted with HOME funds or show compliance with written grant agreements in a timely manner. Reporting requirements and compliance with the Grant Agreement for DCHFA were not adequately pursued. As previously noted, the beneficiary data was not received at DHCD until at least November 1999. The final establishment of records concerning the Grant Agreement did not occur until July 8, 2002, and the data for the 29 mortgage loans has not yet been submitted to the IDIS.

**Written Procedures and Controls.** Finally, DHCD did not have written procedures and controls concerning the process to drawdown HOME funds from HUD and to provide oversight regarding projects using HOME funds. As of August 19, 2002, no documentation has been provided the OIG to show that DHCD has formalized the processes for drawdowns and oversight of HOME projects into written procedures and controls. Without written procedures, we were unable to verify the efficiency of processes and verify the validity of internal controls. Further, without written procedures to describe necessary processes and internal controls, DHCD management cannot effectively ensure accountability of personnel in accomplishing its mission and may be subject to potential fraud or waste in its operations.

### Conclusion

DHCD obtained a drawdown of HOME funds from HUD that exceeded (by \$27,673) the \$972,327 to which it was entitled. According to the beneficiary data, \$972,327 of the \$1 million HOME funds DHCD provided to DCHFA was used for mortgage loans leaving a balance of \$27,673. DHCD submitted a drawdown for \$1 million rather than the \$972,327.

DHCD did not determine the interest earned on unexpended HOME funds remaining 15 days after the drawdown on December 4, 1998, and remit that interest to HUD. According to the beneficiary data, \$604,318 in HOME funds remained unexpended by DCHFA at the end of the allotted 15-day period from the date of the drawdown.

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## **FINDINGS AND RECOMMENDATIONS**

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Further, due to the lack of adequate documentation, it cannot be clearly determined whether the drawdown requested and received by DHCD was authorized in accordance with federal regulations, related directly to Grant Agreement Number 98-33, occurred as a result of the lack of DHCD internal control procedures, occurred as a result of a violation of DHCD internal control procedures, or resulted because of a combination of one or more of those factors.

### **RECOMMENDATION 4**

We recommended that the Director, Department of Housing and Community Development establish written procedures and internal controls to ensure compliance with applicable federal regulations concerning the process to drawdown U.S. Department of Housing and Urban Development HOME Investment Partnerships Program grant funds.

#### **DHCD Response**

DHCD officials stated in their response that they agree with the recommendation and have begun to develop the recommended procedures. An Administrative Issuance detailing the procedures will be prepared for implementation no later than November 30, 2002. In addition, DHCD officials stated that they plan to designate a HOME Coordinator within the Office of Program Monitoring by November 1, 2002, to consolidate the overall oversight of the HOME grant.

#### **OIG Comment**

The response meets the intent of the recommendation and the actions planned by DHCD should correct the condition noted.

### **RECOMMENDATION 5**

We recommended that the Director, Department of Housing and Community Development establish written procedures and internal controls to ensure compliance with applicable federal regulations concerning the management and oversight of U.S. Department of Housing and Urban Development HOME Investment Partnerships Program grant funds used by the District of Columbia Housing Finance Agency and other subrecipients.

#### **DHCD Response**

DHCD officials stated in their response that they agree with the recommendation and have begun to develop the procedures recommended. The new processing procedure document, including internal controls, is being drafted and will be integrated with the procedures

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## FINDINGS AND RECOMMENDATIONS

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discussed in their response to Recommendation 3. The document should be implemented no later than November 30, 2002.

### **OIG Comment**

The response meets the intent of the recommendation and the actions planned by DHCD should correct the condition noted.

### **RECOMMENDATION 6**

We recommended that the Director, Department of Housing and Community Development reimburse the U.S. Department of Housing and Urban Development \$27,673 for HOME Investment Partnerships Program grant funds that exceeded validated expenditures.

### **DHCD Response**

DHCD officials noted that by August 30, 2002, the Comptroller in the office of the DHCD Chief Financial Officer had executed draws from the federal treasury for previously undrawn mortgage loans made by the DCHFA. The actions effectively retired the outstanding liability to HUD in the amount of \$27,673, such that there is now no basis for reimbursement of those funds to HUD.

### **OIG Comment**

The response meets the intent of the recommendation and the actions taken by DHCD corrected the condition noted. We commend DHCD for the innovative solution taken in response to this recommendation.

### **RECOMMENDATION 7**

We recommended that the Director, Department of Housing and Community Development determine the interest earned on the \$27,673 of HOME Investment Partnerships Program grant funds that exceeded validated expenditures and remit that interest to the U.S. Department of Housing and Urban Development. Calculate the interest earned on the \$27,673 from the date of the drawdown, December 4, 1998, through the date in which the interest earned is remitted to the U.S. Department of Housing and Urban Development.

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## FINDINGS AND RECOMMENDATIONS

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### **DHCD Response**

DHCD officials stated in their response that they agree with the recommendation and will determine the interest amount to be remitted by October 31, 2002. The interest will be remitted to HUD during fiscal year 2003.

### **OIG Comment**

The response meets the intent of the recommendation and the actions planned by DHCD should correct the condition noted.

### **RECOMMENDATION 8**

We recommended that the Director, Department of Housing and Community Development determine the interest earned on \$604,318 of HOME Investment Partnerships Program grant funds that remained unexpended 15 days after the \$1 million drawdown on December 4, 1998, and remit that interest to the U.S. Department of Housing and Urban Development. Calculate the interest earned on the \$604,318 from the 16<sup>th</sup> day after the drawdown, December 20, 1998, through the settlement dates of each of the 18 mortgage loans made after December 20, 1998, and remit that interest to the U.S. Department of Housing and Urban Development.

### **DHCD Response**

DHCD officials stated in their response that they agree with the recommendation and will determine the interest amount to be remitted by October 31, 2002. The interest will be remitted to HUD during fiscal year 2003.

### **OIG Comment**

The response meets the intent of the recommendation and the actions planned by DHCD should correct the condition noted.

EXHIBIT A

**SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**

<b>Recommendation</b>	<b>Description of Benefit</b>	<b>Amount and Type of Benefit</b>
1	Program Results. Reassess policies and strategies to maximize private financial resources.	\$32.2 million of private sector funds put to better use.
2	Program Results. Evaluate the use of a home purchase trust fund or the Housing Production Trust Fund to provide low-interest mortgage loans.	Undeterminable. Benefit would be determined based on the attainment of private sector funds.
3	Compliance and Internal Control. Establish procedures and controls for the reimbursement of grant funds.	Nonmonetary.
4 and 5	Compliance and Internal Control. Establish procedures and controls to ensure compliance with applicable federal regulations concerning drawdowns, management, and oversight of grant funds.	Implementation of proper procedures and controls may have prevented the one-time collection of \$1.3 million in unreimbursed amounts that was due the District of Columbia and may preclude future occurrences of this nature.
6	Economy and Efficiency. Remit grant funds that exceeded validated expenditures.	One-time disbursement of \$27,672 due the U.S. Department of Housing and Urban Development.
7 and 8	Economy and Efficiency. Remit interest earned on grant funds that exceeded validated expenditures.	Undeterminable. Disbursement due the U.S. Department of Housing and Urban Development needs to be determined.

EXHIBIT B

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**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT  
HOME OWNERSHIP PROGRAMS**

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The Home Purchase Assistance Program (HPAP) provides financial assistance in the form of interest-free or low-interest loans to enable very low- (households with incomes below 50 percent of the area median income), low-, and moderate-income (households with incomes below 80 percent of the area median income) individuals and families to purchase affordable single family homes, condominiums, or cooperative units in the District of Columbia. HPAP loans are awarded to a limited number of applicants each year, depending on the amount of funds allocated to the program in the Department of Housing and Community Development (DHCD) budget.

Related to HPAP are the Employer Assisted Housing Program (EAHP) and the Metropolitan Police Housing Assistance Program (MPHAP). EAHP and MPHAP awards are also available to a limited number of applicants each year, depending on the amount of funds allocated to the program in the DHCD budget. The DHCD Residential and Community Services Division has management responsibility for these programs.

**Home Purchase Assistance Program.** The HPAP is available to qualified residents of the District of Columbia. Qualified residents that are accepted into the three-tiered program are eligible to receive loans to meet down payment and closing cost requirements. The amount of the loan is based on several factors, including income, household size, and the amount of assets that an applicant can commit toward the purchase price. The loans provided are subordinate to private first trust mortgages.

**Employer Assisted Housing Program.** The EAHP provides District of Columbia employees with an increased opportunity to become first-time homeowners. The EAHP provides matching down payments and deferred loans.

**Metropolitan Police Housing Assistance Program.** The MPHAP provides District of Columbia police officers with an increased opportunity to become first-time homeowners. The MPHAP provides matching down payments, deferred loans, and property tax credits.

**Other Homeownership Programs.** Other DHCD homeownership programs include the First Right Purchase Program, the Tenant Purchase Technical Assistance Program, and the Single Family Residential Rehabilitation Program.



EXHIBIT C

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## **DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY SINGLE FAMILY MORTGAGE PURCHASE PROGRAM**

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The District of Columbia Housing Finance Agency (DCHFA) was created in 1979 as a corporate body which has a legal existence separate from the Government of the District of Columbia but which is an instrumentality of the District of Columbia. DCHFA was empowered, among other authorized activities, to generate funds from public and private sources to increase the supply of, and to lower the cost of, funds available for residential mortgages and notes and for the construction of permanent multi-family rental properties.

**Single Family Mortgage Purchase Program.** The purpose of the DCHFA Single Family Mortgage Purchase Program is to facilitate an increase in the supply of affordable housing in the District of Columbia, particularly for first-time homebuyers, at prices which persons of primarily low-income and moderate-income can afford. First-time homebuyers can buy a home anywhere in the District of Columbia but repeat homebuyers can only purchase a home in targeted areas. In addition, there are limits on the income of homebuyers and on the total price of the home purchased.

**Mortgage Revenue Bonds.** DCHFA issues tax-exempt Mortgage Revenue Bonds to provide first trust financing at below-market interest rates to qualified low-income and moderate-income purchasers of homes in the District of Columbia. Many low-income purchasers use these loans in conjunction with the Department of Housing and Community Development Home Purchase Assistance Program. The bonds issued by DCHFA are payable principally from repayments of mortgage loans financed by or purchased from the proceeds of such bonds and are not a debt of DCHFA or the District of Columbia.

EXHIBIT D

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## THE CONSOLIDATED PLAN FOR THE DISTRICT OF COLUMBIA

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The Consolidated Plan for the District of Columbia (Consolidated Plan) presents a coordinated approach to the District of Columbia's housing and community needs. The Consolidated Plan provides a comprehensive strategy for a 5-year period, currently Fiscal Years (FY) 2001 to 2005, and includes an annual Action Plan that outlines a budget and the housing and community development activities the Department of Housing and Community Development (DHCD) intends to undertake during a particular fiscal year. The annual submission of an Action Plan to the U.S. Department of Housing and Urban Development (HUD) is required by the National Affordable Housing Act in order for the District of Columbia to be eligible to receive HUD entitlement grant funds. The Consolidated Plan is prepared by DHCD.

**FY 1998 Action Plan.** The FY 1998 Action Plan (1998 Plan) states: “[t]he Consolidated Plan is a single comprehensive document concerning housing and community development needs, strategies and an annual action plan for the District of Columbia.” The 1998 Plan further states: “[t]he design and underwriting criteria of the District's housing and community development programs require the maximum use of private financial institution lending consistent with lower income goals.” FISCAL YEAR 1998 PLAN, *supra*, at 1 and 11.

The 1998 Plan lists “[i]ncreasing private sector participation and leveraging of public funds with private resources to improve the effectiveness of current ownership programs” as a home ownership housing initiative. *Id.* at 3.

The 1998 Plan shows \$400,000 budgeted to the DHCD Home Purchase Assistance Program (HPAP) from HOME Investment Partnerships Program (HOME) funds. Although the \$1,000,000 provided to the District of Columbia Housing Finance Agency (DCHFA) represented 17.2 percent of the total \$5,812,000 HOME funds made available to DHCD by HUD for FY 1998, the 1998 Plan does not specifically discuss this use of HOME funds.

**FY 1999 Action Plan.** The FY 1999 Action Plan (1999 Plan) states: “[t]he Consolidated Plan is a single comprehensive document concerning housing and community development needs, strategies and an annual action plan for the District of Columbia,” and notes that the “Five-Year Strategic Plan – outlines priorities, programs and proposed objectives for addressing housing and community development needs over the five-year period.” The 1999 Plan also states: “[t]his document outlines the FY 1999 Action Plan, identifying funding and activities to be undertaken by the city to address its priority needs during the October 1, 1998 through September 30, 1999 period.” FISCAL YEAR 1999 PLAN, *supra*, at 1.

The 1999 Plan further states: “[t]he design and underwriting criteria of the District's housing and community development programs require the maximum use of private financial institution lending consistent with lower income goals. Whenever possible, public funds are used only to ‘close the gap’ needed to ensure project feasibility and housing affordability.” *Id.* at 8-9.

EXHIBIT D

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## THE CONSOLIDATED PLAN FOR THE DISTRICT OF COLUMBIA

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In addition, the 1999 Plan states: “[p]rivate for-profit property owners have significant resources and assets which are used to maintain the District’s housing stock. Where major renovation or the new development of housing is required, the private financing sector is critical. Banks and savings and loans associations play a critical role in housing as the primary financing source of all housing production, rehabilitation or capital improvements and ongoing operations.” *Id.* at 9.

The 1999 Plan shows \$400,000 budgeted to the DHCD HPAP of the total \$6,409,000 HOME funds made available to DHCD by HUD for FY 1999. Although the \$200,000 provided to DCHFA in FY 1999 was District of Columbia HOME repayment funds, the 1999 Plan does not specifically discuss this use of these funds.

**FY 2000 Action Plan.** The FY 2000 Action Plan (2000 Plan) states: “[t]he Action Plan is not only an application to HUD for federal funding, it is also a statement of the strategic activities [that] DHCD, as the District’s designated program administrator, intends to undertake during the fiscal year that the Plan covers.” The 2000 Plan further states: “[t]he grant award criteria of the District’s housing and community development programs require the maximum use of private financial resources. Whenever possible, public funds are used to ‘close the gap’ in providing the financing needed for selected projects.” FISCAL YEAR 2000 PLAN, *supra*, at 1 and 7.

The 2000 Plan lists “[i]ncreasing private sector participation and leveraging of public funds with private resources to improve the effectiveness of current ownership programs” as a home ownership initiative. Further, the 2000 Plan states: “[e]fforts may include expanded use of private financing through participation in national secondary money markets and local community development lending.” *Id.* at 9.

The 2000 Plan shows \$400,000 budgeted to the DHCD HPAP from the HOME funds. Although the \$2,000,000 provided to DCHFA represented 28.9 percent of the total \$6,920,000 HOME funds made available to DHCD by HUD for FY 2000, the 2000 Plan does not specifically discuss this use of HOME funds.

**FY 2001 Action Plan.** The FY 2001 Action Plan (2001 Plan) states: “[t]he Action Plan is not only an application to HUD for federal funding, it is also a statement of the strategic activities [that] DHCD, as the District’s designated program administrator, intends to undertake during the fiscal year that the Plan covers.” The 2001 Plan further states: “[t]he grant award criteria of the District’s housing and community development programs require the maximum use of private financial resources. Whenever possible, public funds are used to ‘close the gap’ in providing the financing needed for selected projects.” FISCAL YEAR 2001 PLAN, *supra*, at 67 and 73.

EXHIBIT D

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**THE CONSOLIDATED PLAN FOR THE DISTRICT OF COLUMBIA**

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The 2001 Plan lists “[i]ncreasing private sector participation and leveraging of public funds with private resources to improve the effectiveness of current ownership programs” as a homebuyer assistance and housing recycling and preservation initiative. *Id.* at 77.

The 2001 Plan shows \$400,000 budgeted to the DHCD HPAP from the HOME funds. Although the \$3,000,000 provided to DCHFA represented 44.1 percent of the total \$6,803,000 HOME funds made available to DHCD by HUD for FY 2001, the 2001 Plan does not specifically discuss this use of HOME funds.

**FY 2002 Action Plan.** The FY 2002 Action Plan (2002 Plan) states: “[t]he Action Plan is not only an application to HUD for federal funding, it is also a statement of the strategic activities [that] DHCD, as the District’s designated program administrator, intends to undertake during the fiscal year that the Plan covers.” The 2002 Plan further states: “[t]he grant award criteria of the District’s housing and community development programs require the maximum use of private financial resources. Whenever possible, public funds are used to ‘close the gap’ in providing the financing needed for selected projects.” FISCAL YEAR 2002 PLAN, *supra*, at 1 and 7.

The 2002 Plan lists “[i]ncreasing private sector participation and leveraging of public funds with private resources to improve the effectiveness of current ownership programs” as a homebuyer assistance and housing recycling and preservation initiative. *Id.* at 13.

The 2002 Plan shows \$1,876,500 budgeted to the DHCD HPAP from the HOME funds. No additional funds, as of the date of this audit report, were provided to DCHFA by DHCD during FY 2002.

EXHIBIT E

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## **THE HOUSING PRODUCTION TRUST FUND**

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The Housing Production Trust Fund (Trust Fund) provides financial assistance to nonprofit and for-profit developers for the planning and production of low-income to moderate-income housing and related facilities on a District-wide basis. The Trust Fund provides assistance to a wide range of housing activities that are involved with all aspects of housing production and preservation, finance, and predevelopment expenses. The Trust Fund operates as a revolving fund using public and private funds from many sources.

A newly reformed Trust Fund managed by the Department of Housing and Community Development is providing \$25 million in local Trust Fund monies, HOME Investment Partnerships Program and Community Development Block Grant funds, and Low-Income Housing Tax Credits for developers committed to creating affordable housing for the extremely low-, very low- and low-income residents. The newly reformed Trust Fund seeks projects for new construction and substantial rehabilitation of rental and for-sale housing, preservation of rental housing with expiring federal subsidies, elderly housing construction and rehabilitation, and special needs housing for persons with physical and mental disabilities. The first request for solicitations of bids from developers was held August 16, 2002.

EXHIBIT F

## DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



Office of the Director

September 19, 2002

Charles C. Maddox, Esq.  
Inspector General  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Dear Mr. Maddox:

The Department of Housing and Community Development (DHCD) is in receipt of the Office of Inspector General's (OIG) draft report on the Audit of the Department of Housing and Community Development's Management of the HOME Investment Partnership Program (OIG No. 02-1-9DB(a)), dated September 5, 2002. As requested, the agency comments are as follows:

**Recommendation 1 – Reassess the DHCD HOME Investment Partnership (“HOME”) program to develop District of Columbia policies and strategies to maximize the use and effectiveness of private financial resources; and incorporate the results in the Consolidated Plan.**

The Department agrees with your recommendation, and will reassess its HOME program strategies for maximizing the use of private financial resources. However, it is important to note that while the Department agrees with the need to try to maximize leverage for its investments, the Department's overall goal is to achieve the greatest public benefit for the provision of affordable housing to low-to-moderate income households. Sometimes, the objective to maximize leverage for investments will not be achieved in light of the overall goal of providing affordable housing.

For example, there are circumstances where the Department is interested in affordable home ownership opportunities that may not in every case create maximum leverage of private sector funds. Such investments, however, may produce affordable home ownership opportunities to some of the most vulnerable residents who may not be able to successfully compete in the private sector markets. For example, while the leverage on DHCD investments for mortgages at 3% interest rates may be 1:1, and 5:1 on mortgages at 6% interest rates, the persons that will benefit from the 3% rates would not be able to obtain the 6% rate in the private market. Consequently, the Department may trade-off the maximum leverage for the maximum affordability to residents that are most challenged.

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## DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

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The Department will complete its reassessment by the end of the calendar year 2002, and include its results in its Consolidated Plan.

**Recommendation 2 – Evaluate the use of a home purchase trust fund or the Housing Production Trust Fund to operate as a revolving fund and to provide an additional source of financial assistance to low-to-moderate income first-time homebuyers in the District.**

We do not concur with your recommendation. The Department has recently evaluated the current Housing Production Trust Fund (HPTF) statute, and found that the statute does not allow the HPTF to be used as a viable source to implement the OIG's recommendation for providing homebuyer assistance. (See Attachment 1) However, while it may not provide homebuyer financial assistance, it does provide for affordable single and multifamily development and rehabilitation for the very-low income population—the same targeted population as stated in the OIG recommendation.

In addition, the Department's Home Purchase Assistance Program (HPAP) already operates as a revolving fund, in that repayments of the HPAP monies are used to make new HPAP loans.

Further, the Department is pursuing other initiatives with private sector enterprises to provide financial assistance to the low-to-moderate-income persons of the District for affordable housing. While, the result may not be a revolving fund managed and operated by DHCD, one program involves several financial institutions partnering with DHCD to provide homebuyer financial assistance to a targeted population.

**Recommendation 3 – Establish specific written procedures and internal controls to ensure that all eligible HOME costs are submitted to the U.S. Department of Housing and Urban Development for reimbursement in a timely manner, and adequate records are maintained to document the process.**

The Department agrees with the recommendation, and has begun to develop the procedures recommended. The following key points will be the cornerstone of those procedures:

1. For all expenses that are to be attributable to the HOME Program, it is the responsibility of the user division (either Residential and Community Services or Development Finance) to track all expenses, reconcile expenses to support documentation, and determine in writing the specific HOME-eligible activity to which the expenses are to be attributed.

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## DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

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2. It is the responsibility of the user division to perform all actions required to set-up an activity in the HDS software (the "front-loader" software employed by the Department to enter activity set-up information in HUD's IDIS system).
3. Upon activity set-up, it is the responsibility of the user division to notify in writing the Information Technology (IT) staff of the Department that the activity is ready for funding. That notification must include the dollar amount for which the activity should be funded.
4. It is the responsibility of the IT staff to notify the user division that any activity recommended for funding has in fact been successfully funded in IDIS.
5. For all verified data on expenses to the ultimate beneficiary that the user division has determined to be correctly attributed to each funded activity, the user division will no less than monthly provide notification in writing to the Comptroller, in the office of the Department's Chief Financial Officer, that funds in that amount are eligible for draw from the federal Treasury.
6. No less than monthly, the Comptroller executes any draws recommended by the user division, and notifies the user division in writing that the draw of funds has been successfully executed.

The Department staff will prepare an Administrative Issuance detailing these procedures, to be implemented no later than November 30, 2002.

In addition, the Department plans to designate a HOME Coordinator within the Office of Program Monitoring to consolidate the overall oversight of the HOME grant. The HOME Coordinator responsibilities will include:

- Documenting procedures including project set-up, reconciliation, clean-up, project monitoring, and project close-out;
- Monitoring letter of credit balances to ensure that funds are committed and spent in a timely manner;
- Auditing financial information in IDIS and SOAR to ensure that activity information is adequately supported, and the system amounts agree;
- Certifying and recertifying Community Housing Development Organizations (CHDO);
- Working with project managers to ensure project monitoring and program management procedures are conducted in compliance with HOME regulations; and
- Work with the Office of the Comptroller and with the HDS coordinator to monitor spending and clean-up activities.



EXHIBIT F

## DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

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This position should be established by November 1, 2002.

**Recommendation 4 – Establish written procedures and internal controls to ensure compliance with applicable federal regulations concerning the process to drawdown HUD HOME grant funds.**

The Department agrees with the recommendation, and has already taken action to establish internal controls in the drawdown process. The new processing procedure document, including internal controls, is currently being drafted. These procedures will be integrated with the procedures discussed in our response to recommendation 3, and should be implemented by November 30, 2002.

**Recommendation 5 – Establish written procedures and internal controls to ensure compliance with applicable regulations concerning the management and oversight of HUD HOME funds used by the District of Columbia Housing Finance Agency and other subrecipients.**

The Department agrees with the recommendation, and will include these procedures and internal controls, in the procedure document developed to implement recommendation 3.

**Recommendation 6 – Reimburse HUD \$27,673 for HOME grant funds that exceeded validated expenditures.**

By August 30, 2002, the Comptroller in the office of the Department's Chief Financial Officer had executed draws from the federal Treasury for previously undrawn mortgage loans made by the DC Housing Finance Agency. One of these, identified in IDIS as Activity 405, represented a mortgage loan for \$46,836, was drawn in new federal funds only to the amount \$19,163, and the balance of \$27,673 was allocated against the unallocated balance of the since-canceled Activity 184. This action effectively retired the outstanding liability to HUD in the amount of \$27,673, such that there is now no basis for reimbursement of those funds to HUD.

The results of this action were provided to the Office of the Inspector General verbally and in writing on September 3, 2002.

**Recommendation 7 – Determine the interest earned on the \$27,673 of HOME funds that exceeded validated expenditures, and remit the interest to HUD. Interest should be calculated from December 4, 1998 through the date the interest is remitted to HUD.**

EXHIBIT F

## DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

Ltr. to Mr. Maddox  
September 19, 2002  
Page 5

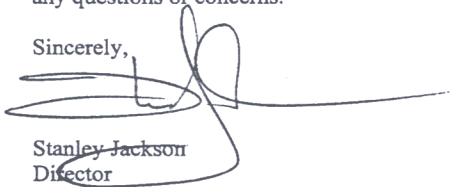
The Department agrees with the recommendation. The Department will determine the interest amount to be remitted by October 31, 2002, and remit the interest owed to HUD during fiscal year 2003.

**Recommendation 8 – Determine the interest earned on the \$604,318 of HOME grant funds that remained unexpended 15 days after the \$1 million drawdown on December 4, 1998, and remit the interest to HUD. Interest should be calculated from December 20, 1998 through the settlement dates of each of the 18 mortgage loans made, and remit the interest to HUD.**

The Department agrees with the recommendation. The Department will determine the interest amount to be remitted by October 31, 2002, and remit the interest owed to HUD during fiscal year 2003.

Please feel free to contact me at (202) 442-7200 or your staff may contact [REDACTED], Director Office of Program Monitoring at (202) 442-[REDACTED] if there are any questions or concerns.

Sincerely,



Stanley Jackson  
Director

CC: [REDACTED], DHCD/OPM  
[REDACTED] DHCD/RCS  
[REDACTED] DHCD/OC

EXHIBIT F

## DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Department of Housing and Community Development**

Office of the Director



July 15, 2002

Milton J. Bailey  
D.C. Housing Finance Agency  
815 Florida Ave., N.W.  
Washington, D.C. 20001-3017

RE: Request for \$3 million dollar grant from the Housing Production Trust Fund

Dear Mr. Bailey:

I am in receipt of your request, and proposed grant agreement, for a \$3 million dollar grant from the Housing Production Trust Fund (HPTF) to leverage Bond proceeds from the HFA's single Family Bond Program in order to fund first-time home ownership opportunities to low- and moderate income individuals and families. I am pleased to support your home ownership programs and am proud of the contributions Department of Housing and Community Development has made to increase home ownership opportunities for District of Columbia families.

Unfortunately, I am unable to approve your request for a grant funded by the HPTF. As you may be aware, the HPTF statute was only recently changed to authorize grants from the fund for "housing production". The statutory and regulatory definition of "Housing Production" is "the construction, rehabilitation, or preservation of decent, safe, and affordable housing." This definition does not support the use of HPTF to support home ownership opportunities, such as HFA's Single Family Bond Program designed to provide home ownership assistance to eligible individuals and families with incomes between 30% and 50% of the Area Median Income. The HPTF was further amended to provide that the funds may only be used to benefit low, very low and extremely low income individuals and families; moderate income individuals and families were specifically excluded as intended beneficiaries of the HPTF, by statutory amendment.

I have attached for your information, a copy of Title V of the Housing Act of 2000 which amends the Housing Production Trust Fund Act (Act). The Act is amended to add "grants" to D.C. Official Code § 42-2802(b)(9), among other things. Therefore a grant may now be made from the HPTF for housing production, where formerly only loans were authorized for housing production. There is no amendment to the statute that authorizes a grant from the fund for home ownership.

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801 North Capitol Street, N.E., Washington, D.C. 20002 (202) 442-7200

EXHIBIT F

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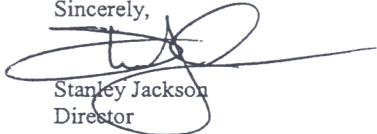
## DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

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Also, as we are currently in the process of amending the HPTF regulations to comport with the statutory changes, monies are not being expended from the HPTF. Further, the Department has agreed with the Council of the District of Columbia not to award any additional monies from the Fund until the Fund's Advisory Board is in place. The Council is concerned that the spirit of the Housing Act of 2002, which significantly strengthens the Board's role, is not violated by the Department making spending decisions without the benefit of the organized community input that the Board structure provides.

Therefore, while I fully support your efforts, I am unable to authorize such a grant from the HPTF for all of the reasons noted above.

Sincerely,



Stanley Jackson  
Director

cc:



EXHIBIT G

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## DCHFA MANAGEMENT RESPONSE DATED SEPTEMBER 12, 2002, TO DRAFT REPORT

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**District of Columbia Housing Finance Agency**  
815 Florida Avenue, NW Washington, DC 20001-3017

September 12, 2002

Charles Maddox, Esq.  
Inspector General  
Government of the District of Columbia  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Re: Audit of the Department of Housing and Community Development's Management of the  
HOME Investment Partnership Program

Dear Mr. Maddox:

This communiqué addresses certain policy concerns raised by your letter dated September 5, 2002 and the accompanying Audit Report. First, I am delighted that after a long and extensive investigation, your audit team did not find any inappropriate use, malfeasance, misfeasance, theft or wrong-doing in connection with the use of District funds by the D.C. Housing Finance Agency (HFA).

Second, however, your letter dated September 5, 2002, is somewhat confusing as it references a new audit undertaken by your department with which I am unfamiliar. As evidenced by the signature of your Executive Secretary, Ms. Amalia Sobalvarro, on the enclosed document (Exhibit 1), the HFA responded fully to the audit undertaken by your office that you cited as: *"Office of the Inspector General (OIG) Audit of the Management of Community Development Corporation's Neighborhood Development and Revitalization Projects by the Department of Housing and Community Development (DHCD)"* and timely, by responding on the date specified in your letter dated August 15, 2002.

In helping your staff conduct said audit and as stated in my letter and responses dated August 30, 2002 concerning said audit, my staff worked closely with your audit team during an audit period that exceeded two months. If the audit that is the subject of your letter dated August 15, 2002 is the same audit that is the subject of your letter dated September 5, 2002, then it eludes me as to how you can continue to assert, as you have in the second paragraph of page three of your September 5, 2002 audit report (the "Audit Report"), that: *"...requested data was not always provided in a complete, pertinent or timely manner for this segment of the overall audit."*

Phone: 202-777-1600 Fax: 202-986-6705 [www.dchfa.org](http://www.dchfa.org)

EXHIBIT G

## DCHFA MANAGEMENT RESPONSE DATED SEPTEMBER 12, 2002, TO DRAFT REPORT

Charles Maddox, Esq., Inspector General  
Audit of the HOME Investment partnership Program  
September 12, 2002  
Page Two

Indeed, it appears that the authors of the September 5, 2002 letter and the Audit Report may be confused as to the facts regarding the audit that was the subject of your letter dated August 15, 2002, as they have misstated information concerning the HFA's cooperation with your audit team in the letter of September 5, 2002 and in the Audit Report. Perhaps the reason for this failure is owing to what I described in my letter dated August 30, 2002 as being a lack of your audit team's experience in the subject matter being audited. Surely, you cannot hold the HFA accountable for your staff's difficulties in comprehending the nuances of the public finance arena.

Third, in the Executive Digest of the Audit Report and interspersed throughout the Audit Report, the authors state (in connection with HOME funds being layered into HFA Single-Family mortgage Revenue Bond transactions) that: "*DHCD did not invest HOME funds in a manner that maximized the use of private sector financing to help finance mortgage loans for District of Columbia residents.*" You buttress this statement on page seven by calculating leveraging ratios and concluding on page 10 that the city has experienced a [lost investment opportunity] *emphasis added*, of approximately \$32 million by lowering interest rates on HFA sponsored Single-Family Mortgage Revenue Bonds.

With regard to this matter, the authors failed to recognize that the HFA's mission is to provide safe, decent and affordable housing to [persons who could not otherwise afford such housing] *emphasis added*. Therefore, the use of HOME funds to lower interest rates on the mortgage loans for people who could not otherwise afford to purchase homes is a necessary use of HOME funds. Also, the authors failed to consider that in most instances HOME funds provided for down payment and closing cost assistance are **loaned** to homebuyers under the Home Purchase Assistance Program (HPAP). This practice increases the debt burden placed on the low-income homebuyers who can least afford it because in addition to paying the principal and interest on their first trust mortgage loans, they are also required to pay principal and interest on their second trust HPAP loans. While HPAP may indeed achieve a higher private sector leveraging ratio, the lending practice aspect of HOME funds also places DHCD in a higher risk of loss category than does using HOME funds to blend down mortgage interest rates via HFA sponsored Mortgage Revenue Bond issues. The HFA's practice of blending HOME funds with its Single-Family Mortgage Revenue Bond proceeds to lower mortgage interest rates not only lowers the low-income borrower's monthly debt service payments, but also reduces the debt burden placed on low-income borrowers as contrasted above.

In addition, the authors failed to include in their calculations DHCD's cost of administering HPAP and the fees the Urban League charges the city for operating HPAP. By not including these costs in their calculations, the authors of the Audit Report fail to appreciate that if these costs were included in the calculation the leveraging ratio would be lower as well as the value placed on the so-called "lost investment opportunity." The HFA charges no such fees. Also, HPAP provides up to \$20,000 in down payment and closing cost assistance. If this amount were higher or lower, the leveraging ratio would also fluctuate, as would the value placed on the so-called "lost investment opportunity."

EXHIBIT G

**DCHFA MANAGEMENT RESPONSE DATED SEPTEMBER 12, 2002,  
TO DRAFT REPORT**

Charles Maddox, Esq., Inspector General  
Audit of the HOME Investment partnership Program  
September 12, 2002  
Page Three

By viewing the leveraging of HOME funds in a purely mathematical context, the authors have discounted the public policy purpose and social welfare benefit of the city's mortgage rate buy-down program. The fact remains, given the cost of housing in the city, even with HPAP funds in hand, low-income persons would still have difficulties obtaining mortgage loans from conventional mortgage lenders. More important, certain low-income populations would not receive mortgage loans from any conventional mortgage lender if the city did not make HOME funds available to the HFA to buy-down interest rates on certain mortgage loans. Therefore, there is a continuing need to blend down interest rates to render homes affordable to low-income persons. And this is why the city has made the public policy determination that HPAP and the HFA's buy-down program should coexist.

The Audit Report failed to also consider the city's thoughtful and strategic public policy determination to use HOME funds for down payment and closing cost assistance, notwithstanding the authors' flawed leveraging ratio theory, just as it has made a policy determination to use HOME funds to lower interest rates on mortgage loans made to low-income persons. Moreover, the so-called "lost investment opportunity" fails to consider how the city's higher public policy standards regarding the use of HOME funds have empowered and improved the lives of over one hundred low-income families and individuals who would not have otherwise been able to improve their standard of living if the city did not make the policy decision to wisely invest HOME funds to create opportunities of this nature.

The nexus the authors of the Audit Report are attempting to make between the so-called "lost investment opportunity" and the notion that HOME funds were not invested to maximize private sector financing is erroneous. These assertions second-guess established public policies and attempt to influence, direct and to supplant those policies without the benefit of any study, empirical data, alternative strategies or recommendations to support the authors' position. Moreover, the authors of the Audit Report have failed to grasp the importance of the city's long-stated and long-standing policy position concerning the prevention of low-income resident displacement from the city and failed to take into consideration the HFA's unique role in helping the city to achieve this objective.

To soften the cost-of-living and inflationary pressures experienced by low-income residents and to quell the displacement pressures of gentrification on low-income residents, the city has for several years used HOME funds in a combined and strategic manner. To achieve part of the city's anti-displacement policy objectives, the Urban League uses HOME funds to provide low-income families and individuals with the down payment and closing cost assistance needed to effectuate the purchase of homes in the District of Columbia. And through its Grant Agreements with the HFA, the city uses HOME funds to lower mortgage interest rates so that low-income families can afford to live in those homes.

Given the escalating prices of homes in the city, the combination of both efforts has successfully prevented the displacement of more than one hundred low-income families and individuals. Moreover, the HFA's use of HOME funds in this manner is consistent with how other state housing finance agencies around the country use HOME funds (Exhibit 2). Buttressed by the views of a great number of low-income persons and by an equal number of affordable housing

EXHIBIT G

## DCHFA MANAGEMENT RESPONSE DATED SEPTEMBER 12, 2002, TO DRAFT REPORT

Charles Maddox, Esq., Inspector General  
Audit of the HOME Investment partnership Program  
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Page Four

professionals, the opportunity to own a home in any urban city and the improvement to the quality of life of low-income families after homeownership, is a far more important and beneficial use of HOME funds than is at the heart of the authors' mathematical equation.

Fourth, on page 12 of the Audit Report, the authors express the opinion that the HFA should combine a portion of its internal operating funds with Single-Family Mortgage Revenue Bond proceeds to lower interest rates on mortgage loans. As stated in my letter of August 30, 2002, the purpose and methodology of the HFA's use of its operating funds and the use of HOME funds must be viewed, determined and managed through different public policy and public finance lenses than those used to view, determine and manage a Community Development Corporation's (CDC) use of such funds.

As a matter of public policy, the HFA was established in 1979 by the District of Columbia to be a self-sustaining, self-funding corporate instrumentality of the District. In its creation, a specific public policy determination was made to cause the HFA to operate in a manner unlike DHCD or other city agency that receives public and federal funds to sustain their operations. As a result of this policy determination, the HFA does not receive funds from the city or the federal government to sustain its operations. In this regard, the HFA is unique from any other government agency of the District of Columbia and any CDC that receives funds from the city. Therefore, if the HFA used its operating funds in the manner suggested, it would not be able to sustain its operations. If the HFA does not sustain its operations, it will not be able to fulfill the public purpose mission for which it was established.

From a public finance perspective, the HFA is an active participant in the publicly traded financial markets. As a result, its bond issues, performance and the method in which it manages its underlying programs, assets, operations, business and financial affairs are extensively evaluated and monitored by rating agencies. The HFA currently maintains an "A3" Issuer Credit Rating (IRC) from Moody's Investors Service and a "BBB" ICR from Standard & Poor's. In this regard the HFA is again unique from any other government agency of the District of Columbia and any CDC operating in the city. The HFA's credit ratings have a direct bearing on the interest rates it obtains on its multifamily and single-family revenue bond transactions. The high quality of these ratings permits the HFA to lower the cost of housing for the low-income population it serves. In order to maintain and enhance its ICR, the HFA seeks to achieve and maintain in reserve at least four-times the amount of its annual operating expense.

Given the unique public policy constraints and stringent rating agency requirements stated above, the HFA's corporate policy is to maximize its reserves by carefully and strategically managing its finances so that it can continue to maximize the benefits its operations bring to the low-income population it serves. At present, the HFA's operating reserve levels are insufficient to meet the optimum levels required by the rating agencies. As previously stated, rating agencies recommend that housing finance agencies maintain operating reserves that are at least equal to four times their operating budgets. Currently, the HFA's reserve levels are only 2.4 times its operating budget. Therefore, the most appropriate use of the HFA's operating funds is to maintain its ICR, as its credit rating permits the HFA to better fulfill its public purpose mission.



EXHIBIT G

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**DCHFA MANAGEMENT RESPONSE DATED SEPTEMBER 12, 2002,  
TO DRAFT REPORT**

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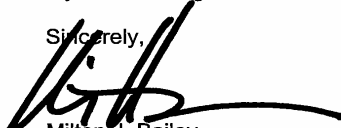
Charles Maddox, Esq., Inspector General  
Audit of the HOME Investment partnership Program  
September 12, 2002  
Page Five

For the unique public and corporate policy reasons stated above, it would be inappropriate to use the HFA's internal operating funds to blend with bond proceeds as recommended. HOME, Housing Production Trust Fund and District Appropriated Funds are better suited for this purpose.

In summary, the Urban League, DHCD, and the HFA should be commended for their use of HOME funds to prevent displacement, improve the quality of life and facilitate the economic empowerment of low-income persons; who, but for the city's use of HOME funds in this manner, would be typically ignored by conventional mortgage lenders. Instead, the authors of the September 5, 2002 letter and the Audit Report have chosen to venture into a public policy area that is beyond their stations and above their expertise. By doing so, they have called into question the time-tested learned judgment of seasoned housing professionals, and performed a great disservice to the city's underserved low-income residents, the Office of the Inspector General, DHCD and the HFA.

Finally, in my official capacity as Executive Director of the D.C. Housing Finance Agency, I request that this letter and each of its enclosed Exhibits, my letter of August 30, 2002 and each of its enclosed responses, be included in any final audit report(s) stemming from your letters of August 15, 2002 and September 5, 2002. If you do not include this information in any final audit report(s), please provide me with a written detailed explanation as to why said information was not included. I also request that you provide me with written responses to the issues raised in my letter of August 30, 2002.

Sincerely,



Milton J. Bailey  
Executive Director

Enclosures

cc: Stan Jackson  
John Koskinen

EXHIBIT H

## DCHFA MANAGEMENT RESPONSE DATED SEPTEMBER 17, 2002, TO DRAFT REPORT



**District of Columbia Housing Finance Agency**  
815 Florida Avenue, NW Washington, DC 20001-3017

September 17, 2002

Charles Maddox, Esq.  
Inspector General  
Government of the District of Columbia  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Re: Audit of the Department of Housing and Community Development's Management  
of the HOME Investment Partnership Program

Dear Mr. Maddox:

On September 12, 2002 I responded to your letter and Audit Report dated September 5, 2002 regarding the above referenced subject matter. A portion of my earlier responses in this matter centered on the flawed leveraging ratio conclusions and the so-called "lost investment opportunities" described in the Audit Report.

As you are aware, the authors of the Audit Report erroneously compared the use of HOME funds by the Urban League (which provides down payment and closing cost assistance) against the use of HOME funds by the HFA (which provides mortgage interest rate buy-downs) in a calculation to measure the leveraging of private sector funds. An appropriate valuation would have been to compare the use of HOME funds by the HFA against the use of HOME funds by other state housing finance agencies to accomplish the same purpose, i.e., mortgage interest rate buy-downs.

Since it was not clear whether the authors of the Audit Report contacted other state housing finance agencies to conduct this apples-to-apples comparison, provided below is the contact information for several state housing finance agencies that use HOME funds in a manner similar to the HFA. The following list was compiled using the information supplied by the National Council of State Housing Finance Agencies and attached to my letter dated September 12, 2002:

Ms. Helena R. Cunningham, President  
Louisiana Housing Finance Agency  
2415 Quail Drive  
Baton Rouge, LA 70808  
(255) 763-8700

Mr. Charles L. Horsey, III, Administrator  
Nevada Housing Division  
1802 N. Carson Street, Suite 154  
Carson City, NV 89701-1239  
(775) 687-4040

Mr. Jim Stretz, Executive Director  
New Mexico Mortgage Finance Authority  
344 4<sup>th</sup> Street, SW  
Albuquerque, NM 87102  
(505) 243-3289

Mr. Bob Repine, Director  
Oregon Housing and Community Services Department  
1600 State Street  
Salem, OR 97301-4257  
(503) 986-2100

Phone: 202-777-1600 Fax: 202-986-6705 [www.dchfa.org](http://www.dchfa.org)

EXHIBIT H

**DCHFA MANAGEMENT RESPONSE DATED SEPTEMBER 17, 2002,  
TO DRAFT REPORT**

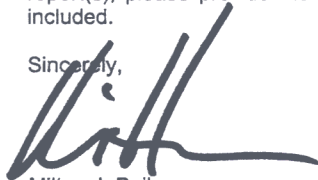
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Once you contact these agencies to conduct your own independent analysis, please make sure you thoroughly analyze the raw data provided. You should consider certain discrete factors, including, but not limited to: the governing public policies regarding the use of HOME funds; the cost of housing; income of population served, and any unique features of their HOME funds programs, as this data will effect the outcome of your analysis. The correct interpretation of this data will help your refine and accurately state your findings in the Audit Report as it relates to the HFA's leveraging ratio.

I trust the foregoing information proves helpful to your staff. If you require assistance with the interpretation of the raw data, please do not hesitate to contact [REDACTED] of my staff at (202) 777-[REDACTED]

Finally, in my official capacity as Executive Director of the D.C. Housing Finance Agency, I request that this letter be included in any final audit report(s) stemming from your letters of August 15, 2002 and September 5, 2002. If you do not include this letter in any final audit report(s), please provide me with a written detailed explanation as to why this letter was not included.

Sincerely,



Milton J. Bailey  
Executive Director

cc: Stan Jackson  
John Koskinen